NOVEMBER 1978

Nation's Business

he business advocate magazine

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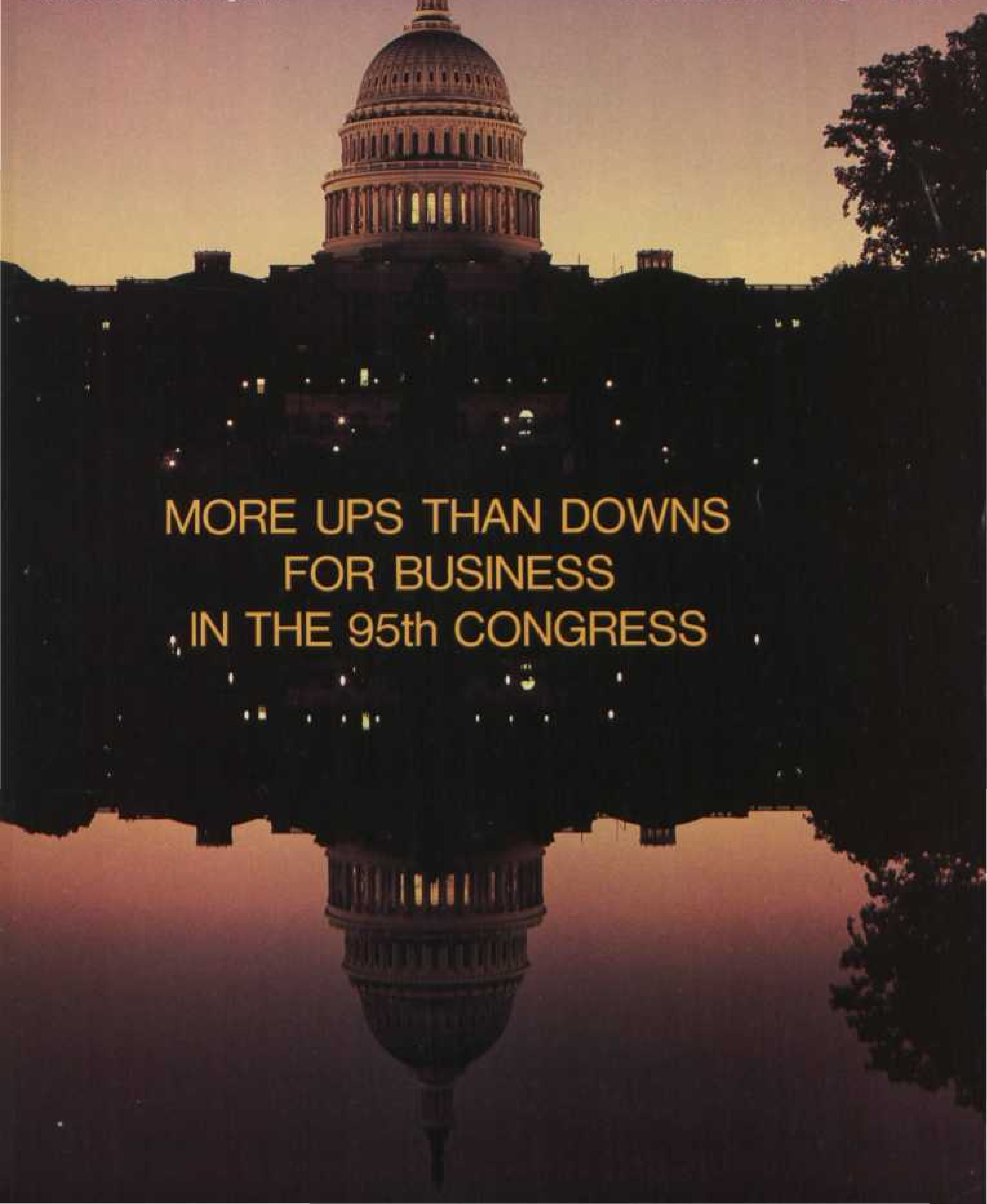

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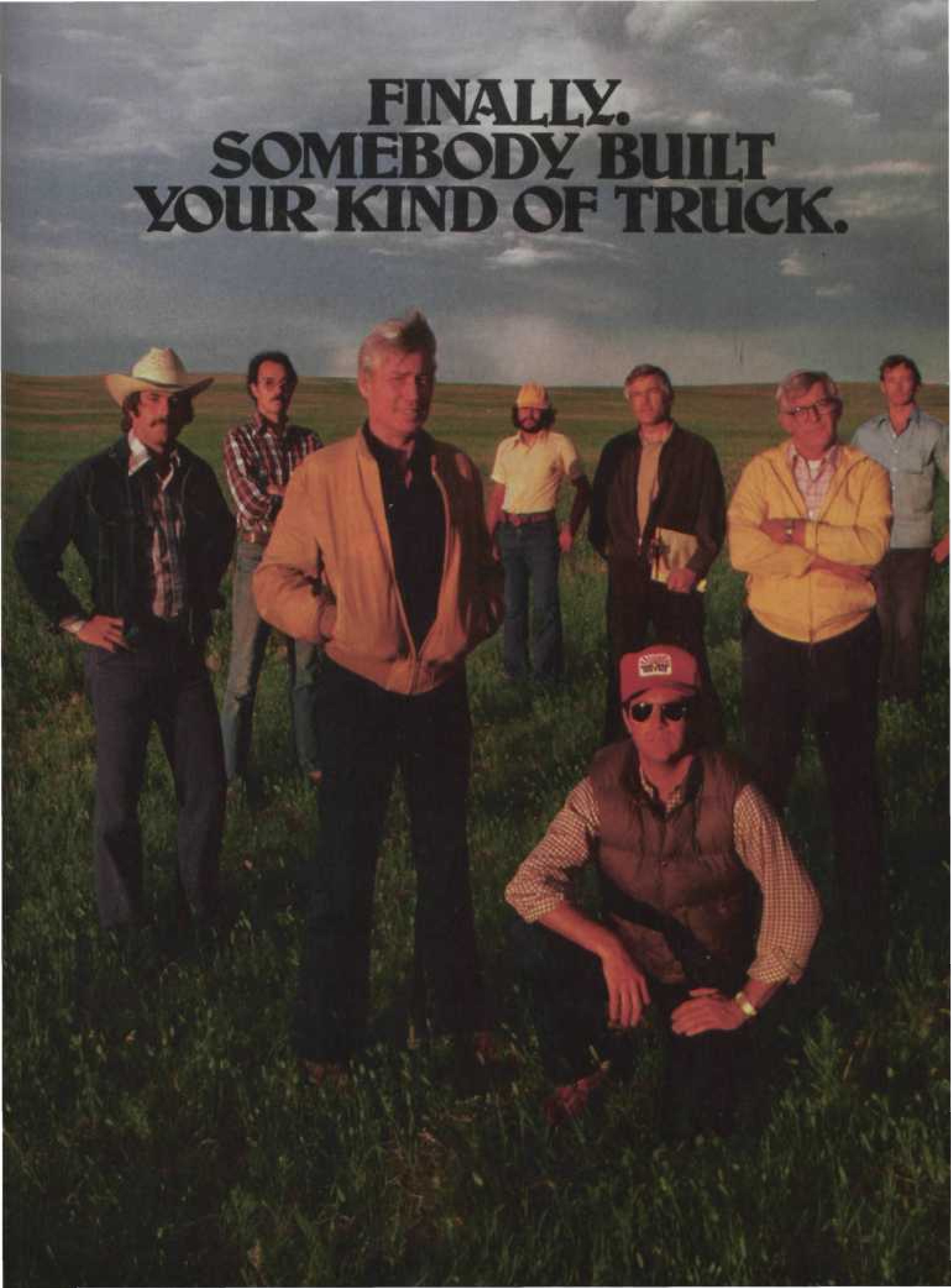
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FEATURE BY FEATURE THE S-SERIES OUTCLASSES THE COMPETITION.

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2. Delco Dual-Power/Hy-Power split brake system.	YES	NO	NO	NO
3. One-piece door frame and door.	YES	NO	NO	NO
4. Availability of sleeved mid-range diesel.	YES (IH DT-466)	NO	NO	NO
5. Fiberglass tilt hood.	YES	NO	NO	NO
6. 70 inches of cab shoulder room.	YES	NO	NO	NO
7. Flat windshield for improved visibility.	YES	NO	NO	NO
8. Modular Electrical system with plug-in gauges.	YES	YES	YES	YES
9. Recessed marker lights.	YES	NO	NO	NO
10. Interchangeable cab parts across medium and medium-heavy models.	YES	NO	NO	NO

INTERNATIONAL

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The Nation's Business

WASHINGTON LETTER

▶ INFLATION REMAINS TOP ISSUE for Carter administration--for most Americans.

Family income not keeping pace with inflation, say most people.

Additionally, one third in nearly every key population subgroup claims inability to buy things they were able to buy several years ago.

That's from Opinion Research Corp.

National pollster adds that more people now say they have been hurt more by inflation than at any time since mid-1960's.

This is not good for business.

With price increases outdistancing consumer income, buying goes down.

It's the classic inflation cycle at work.

▶ NEARLY ALL RESPONDENTS in national grass-roots lobbying organization poll say government is main culprit of inflation.

Respondents--members of Citizen's Choice, affiliated with National Chamber--blame government's deficit spending as main fuel for inflation.

▶ LATEST PRODUCER PRICE INDEX UP--once again.

This time it's nine tenths of one percent--at annual rate of 10.8 percent.

September increase--announced last month by Labor Department--is highest since April.

Producer price index formerly called wholesale price index.

▶ WHITE HOUSE NEWS & VIEWS is one of Washington's newest newsletters.

It's different: It comes from the White House.

Audience? About 550 top policy people within government. Aim of publication is to help Carter White House and cabinet departments speak with one voice. Several times in recent months, top Carter people have made public statements at odds with administration efforts.

White House newsletter is designed to fill void between what government officials pick up from media and what gets passed down about top-level policy through normal channels.

Newsletter tentatively scheduled for biweekly publication.

Its editor was brought aboard by Gerald Rafshoon, Mr. Carter's resident image-maker.

▶ FEDERAL WORKERS' PAY went up 5.5 percent last month.

It will cost American taxpayers $3.2 billion this fiscal year--equivalent of $60 for average family in this country.

In addition, federal civilian government pay now exceeds nonfederal pay by 42 percent.

National Chamber economists say disparity between federal and nonfederal civilian wages actually costs average American family $200 more each year in taxes than it should.

Analysis of pay disparity comes from new study issued through National Chamber Forecast and Survey Center.

Average federal civilian pay in 1977 was $17,404; for average state, local government employee it was $12,233. Average pay in private sector was $12,244.

▶ BUSINESS LEADERS in Washington already planning strategy for new Congress meeting in January.

Hoping for even more substantial gains than those chalked up in just-adjourned 95th.

Keystone of 1979 planning: Make

inflation top priority in Congress. Effective anti-inflation fight would require support of top business goals--incentives for job-creating investment, limits on taxes and spending, an end to over-regulation.

In general, more reliance on private sector, less on government expansion to deal with economic problems. National Chamber campaign to put inflation at forefront of 96th Congress issues already showing impressive progress. Overwhelming majority of candidates responding to Chamber's anti-inflation poll pledge to work for price stability if elected.

National Chamber officials predict election mandate this month for a 96th Congress that will cut taxes further, limit spending, and insist on curing the nation's number one illness--inflation.

▶ INVESTMENT INCENTIVES will be major point of business drive to reach price stability through higher productivity.

National Chamber economists say corporate tax relief voted was very small, despite claims of White House and Congress. Actually, says National Chamber, only one fifth of what is needed.

▶ LABOR LAW REFORM ISSUE may not even come up in next Congress.

Our sources tell us labor probably will not try to mount another campaign to push issue through 96th Congress, which convenes in January.

One reason: Issue was labor's number one legislative priority--its defeat was humiliating for union leaders.

Some labor experts say issue still on drawing boards, however, could surface once more next year.

Matter hinges on Nov. 7 election. If--as projected--there is net loss of several labor seats in Senate, labor law reform could not make it through Congress.

▶ GOVERNMENT GEARING UP to begin task of putting President's new national export policy into effect.

Policy aimed at expanding federal export financing, strengthening export promotion programs of State, Commerce departments, Small Business Administration.

Business reacted swiftly when Mr. Carter unveiled policy recently, calling it significant step toward fulfilling America's tremendous export potential.

▶ PRESIDENT'S EXPORT POLICY, when carried out, will especially benefit small, medium-size businesses just entering export market, says Dr. Richard L. Lesher, National Chamber president.

He adds, however, that Mr. Carter should give more consideration to variety of fiscal incentives designed to increase productivity of U. S. business and workers. This would enhance competitiveness of American products overseas, he says.

Trade experts say federal efforts needed. They predict U. S. trade deficit for 1978 will be in neighborhood of $30 billion.

▶ SUPREME COURT WILL HEAR four cases of importance to business this term, which began last month.

They involve:

Whether strikers should be permitted to draw unemployment insurance payments during strike.

Whether federal agencies unilaterally can release information, under Freedom of Information Act, that is submitted by business and is considered confidential by business.

Whether pension plans must conform to regulations of Securities and Exchange Commission, in addition to regulations of IRS and under Employee Retirement Income Security Act.

Whether IRS can determine which accounting methods business can use in determining profit, loss of inventories.

▶ REVERSE-DISCRIMINATION ISSUE awaits decision by Supreme Court on whether it will hear case or not.

Decision expected soon.

Case involves challenge to provision of affirmative-action agreement between Kaiser Aluminum Chemical Corp. and steelworkers union local in South.


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Warning: The Surgeon General Has Determined That Cigarette Smoking Is Dangerous to Your Health.
FILTER 100's: 10 mg. "tar" 0.8 mg. nicotine, FILTER, MENTHOL: 11 mg. "tar", 0.8 mg. nicotine, av. per cigarette, FTC Report MAY '78.

SEPTEMBER SOUND OFF RESPONSE ON PAGE 48.

Should There Be Universal Service?

THE MILITARY DRAFT was scrapped more than four years ago in favor of an all-volunteer system.

Service pay and allowances were increased substantially to attract high-quality recruits, and a new emphasis was placed on recruiting women.

There is now growing criticism in Congress, however, that the all-volunteer concept not only has pushed military personnel costs so high that weapons needs are suffering but also has failed to produce the numbers and types of enlistees anticipated.

Some members of Congress believe that a return to the military draft should be considered. Others would go much further. They advocate a system of mandatory duty under which physically qualified young men and women would be given a choice of military or nonmilitary public-service activity for a specified period.

Universal service, advocates say, would assure a sufficient supply of military manpower while avoiding the unfairness of a draft that exempted women and allowed young men with financial and educational advantages to pursue normal lives. The required duty period of two or three years would help all young people to mature and develop work-oriented attitudes and skills that would be helpful after their obligations are fulfilled.

Opponents of universal service say it would not solve the problem of attracting qualified enlistees to the armed services; sufficient incentives to do that must be provided regardless of cost.

A country at peace, opponents say, should no more think of conscripting its youth for military or other government-sponsored projects, however noble, than it should consider drafting people to teach school, deliver the mail, or perform other jobs at minimal wages.

Those opposing universal service add that any high-turnover program encompassing millions of teen-agers would be more costly than any added incentives needed to bring military manpower up to strength.

Supporters of some type of mandatory national contribution from young people have one telling argument—such a requirement imposed on those aged 18 to 20 would help alleviate the youth unemployment problem, which, in some cities, is up as high as 60 percent among minorities. Universal service for all, they say, would be an equitable way of dealing with unemployment and maintaining an adequate military force.

What do you think? Should the nation require a period of universal service from all young people? □

PLEASE CLIP THIS FORM FOR YOUR REPLY

Wilbur Martin, Editor
Nation's Business
1615 H Street N. W.
Washington, D. C. 20062

Should we have universal service for all young people? □ Yes □ No

Comments: ____________

____

____

____

____

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"The Abomination Called Economics"

I don't know whether to be amused or outraged by your article, "Federal Figures and the True Economic Story" [August].

After reading statements such as: "The possibilities for error are large; "no one really knows for sure; and "actually, it omits some of the biggest items;" we arrive at the final paragraph.

This concludes: "It's hard to imagine how our economic system could function without a steady flow of reliable statistics."

Really now! Reliable in what way?

Why you choose to discredit an otherwise excellent article is beyond me. Surely you know that a free market is the greatest mechanism for the allocation of scarce means among competing ends that has ever been discovered or devised.

Maybe we never needed the Hula Hoop or Pet Rocks, yet someone perceived a market which no amount of statistics could have predicted.

A better conclusion would have been to point out the absurdity of guessing in advance what individual consumers will prefer.

Your article correctly points out that the quarterly projections have never been accurate. What's more, they never shall be.

Only a free and unencumbered market can distribute the most goods and services to the greatest number of people, a claim no economist can make. Our nation stands as proof to this truth, yet it, too, can be destroyed by blind adherence to the abomination called economics as practiced by our federal agencies.

RICHARD W. COCHRAN
George L. Brown, Insurance Agency
Las Vegas, Nev.

Monitoring the federal books

I recommend that a panel of businessmen study the appropriations in the federal budget and determine their worthiness.

We all know that Washington has appropriations on the books that should be discontinued. Many should never have been made. The panel should recommend that they be killed.

Also, I personally feel, as I am sure millions of others do, that New Yorkers as a whole got themselves into

their predicament, and it should be up to them to dig their own way out. I resent my tax dollars being used in any way to help them with their irresponsible actions.

FRED E. SPENCER
Spencer Engine, Inc.
Tampa, Fla.

Rent control problem

The George Fowler article ["The Bitter Fruit of Rent Control," August] is a superb and useful treatment for those who stand against the heinous crime of rent control.

It presents a clear and concise picture of a problem not readily understood by most people. It is timely and complete in its coverage of the subject.

E. MASON BIGGS
Executive Vice President
Chamber of Commerce
Montclair, N. J.

Small business on strike?

A recent letter, "Inflation: What It Is and How to Stop It," [September] follows exactly a statement I made recently at a meeting of local small businessmen. It's time small businesses went on strike and demanded from our federal and local governments relief from rising taxes.

As small, independent businessmen, we must keep pace with pay raises decreed by unions and bureaucrats without raising our prices. Some of us manage by giving better service and quality; others go under.

Government should follow the rules that small businesses have to follow to survive. Let's set a date and close down for two days, or better yet go out on strike indefinitely until some of our demands are recognized.

HARRY CUNNINGHAM
President
M/C Graphics, Inc.
Chagrin Falls, Ohio

Identification tip

The article on jogging was well presented. ["Jogging Away From It All," September]

However, one piece of advice was missing. Two doctors, writing in the "New England Journal of Medicine," August issue, recommend that all joggers wear an identification tag with name, age, address, telephone number, known medical condition, medication, and allergies.

In case of collapse or accident, the jogger can then be identified by police and medical people.

ROBERT SMITH
Manager
J. V. Smith Drug Co.
West Warwick, R. I.

About that duck . . .

I was intrigued by your article "A Duck by Any Other Name. . ." [September] and the award given to William K. Eastham, former National Chamber chairman.

The similarities to the duck and the small businessman are plentiful. I thought you might be interested in my comparisons to the same creature:

THE ISSUE CONGRESS DUCKED

A dead duck is out of luck;
A sitting duck is game;
A politician voted out
Is a duck that we call lame.

When we say he is a funny duck,
We mean he is a clown.
And a duck's back is the only
back
Where you always can get down.

A duck's sanity is questioned.
A bad doctor's called a quack.
And we say a man is looney
When his mind goes out of
whack.

Duck soup is when you don't
require
Talent or a brain.
For them we say it's a good day
When all we have is rain.

And when something is ugly,
A duckling it is labelled.
All in all the duck is one
Of literature's most fabled.

Impotent base runners are called
Ducks on a pond.
And we say he is a lucky duck,
When we know we have been
conned.

If you put all these together,
A scenario does appear
Of congressional ineptitude;
The analogies are clear.

So I propose the duck to them
As their official crest
To signify that when they're
"fowl,"
They're at their very best.

JOE LUND
Executive Vice President
Farmhand, Inc.
Hopkins, Minn.

It took Basic Four to let me mind my own business.

When I started this business, what made us grow was my going out and scouting new lines and territories, adding salesmen, getting us new business. And I know it's my business to keep doing those things.

But there was never time.

My whole day was spent fighting fires. I had to keep after the slow payers, constantly watch inventory and re-order levels, check credit—stuff like that. If I didn't do it, it didn't get done. I felt like a one-man band.

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BY JAMES J. KILPATRICK

Court Reform: Begin at the Bottom

FEW PEOPLE have paid much attention, even within the legal profession, but some remarkable things have been happening within the judicial system. The movement toward court reform that began 15 or 20 years ago has gained momentum. Much remains to be done in both state and federal courts, but at a time when so many of our institutions are criticized, the courts deserve a few words of praise.

One area in particular still cries out for attention—police and traffic courts. Their reform strikes me as crucial. Some fresh thought also needs to be directed toward juvenile courts. The highest appellate courts, if they would stop being so stuffy toward the media, could contribute greatly to better public understanding of the law. But let me get on to the encouraging news.

Writing in the current "Yearbook of the States," published annually by the Council of State Governments in Lexington, Ky., Jag C. Uppal reviews recent developments in half a dozen areas of court reform. Mr. Uppal is director of secretariat services for the National Center for State Courts, an institution that itself reflects new development.

THE CENTER was created in 1971. Early in 1978, it moved into its $2 million permanent home in Williamsburg, Va. The center also operates four regional offices in Boston, St. Paul, San Francisco, and Atlanta, plus smaller offices in Denver and Washington, D. C. The work is financed through federal grants and dues that are assessed against the states on the basis of population; 48 of the 50 states participate.

The center serves as a clearinghouse for all kinds of ideas and programs concerning the courts. Mr. Uppal's staff also serves the National Conference of State Chief Justices and other associations concerned with judicial functions. One recent project was a study of the use of television in trial courts. In August, the state chief justices, meeting in Burlington, Vt., voted 44-1 in favor of televising certain trials. Such a vote would have been unthinkable even a decade ago, but the state chief justices are also riding the waves of reform and modernization.

One trend can be observed in the changing relationship between the judicial branch and the other branches of state government. Part of the ideal of American jurisprudence is the independent judiciary, but, historically, the courts have been independent more in theory than in practice. Judges generally have had to accept the same personnel services, budget procedures, and retirement systems as executive agencies. Now, 11 states have established separate funding for their judiciary systems, and 18 states hear an annual address on the State of the Judiciary by their chief justices.

STRENUOUS AND SIMULTANEOUS EFFORTS are under way to improve the quality of jurisprudence. One is to get good people on the bench in the first place. Another is to get rid of the incompetents still sitting. Toward these ends, many states have created commissions on judicial qualifications which appraise the credentials of prospective judges. All the states except Maine and Mississippi now have com-

missions that discipline, censure, and sometimes remove erring judges.

Let me confess some skepticism about the effectiveness of these altogether admirable commissions. The appointment or election of judges is part of the total political process. A thousand commissions on qualifications, sitting night and day, will never achieve a nice antiseptic purity; we wouldn't like it if they did. And as for censure or removal of bad judges, I will believe in this reform when I see better evidence of its success. When it comes to disciplining their colleagues, judges stick together like gynecologists. Some of the state disciplinary commissions have lay members, but even so they are heavily influenced by judges who are reluctant to censure old friends who may have taken to the jug.

Other reforms are making better progress. In the past year or so, Minnesota, Nevada, North

Dakota, Montana, New York, and Utah have joined the movement toward unified court systems. Similar reorganizations have taken place in California, Connecticut, Georgia, Texas, and Kansas. North Carolina has fixed time limits for the trial of criminal cases. South Carolina has created a statewide system of family and probate courts. A dozen states are experimenting with public relations officers, and 30 states have established intermediate appellate courts.

ONE OF THE MOST USEFUL REFORMATIONS began in Indianapolis in 1962, as a project of the city's Federation of Women's Clubs. Disturbed by reports of arrogance on the part of local judges, the women began sending a couple of silent observers to sit in municipal and criminal courtrooms. After a while, they published their opinions on judicial conduct. Behold! Better behavior. It is hard to estimate how many cities have followed the lead of Indianapolis, for such monitoring arrangements are mostly voluntary, but Illinois and New York have created structured systems of court observers, and the idea is catching on.

Still another innovation—on this one I reserve judgment—is the use of lay judges, or parajudges, in some of the lower civil and criminal courts. Mr. Uppal's records indicate that 7,000 lay judicial officers are now sitting in all states but California, Hawaii, Maine, and Massachusetts. An estimated 8,000 to 10,000 positions may be open to such parajudges.

If these lay judges, untrained in the law, perform largely ministerial functions, all well and good. It takes no more than a desk calculator to tot up an uncontested fine for speeding. If their judgments in contested civil or criminal cases are automatically subject to review, all right. But my concern for the most crying need for judicial reform makes me hesitate. In terms of the judiciary as a whole, we have things upside down. The system ought to provide the best jurists, drawing the highest pay, at the very bottom of the heap.

A RECENT INCIDENT in Norfolk, Va., provides a case in point. The city's principal traffic court is presided over by a judge who has been on the bench too long. He is described as testy, thin-skinned, and often impatient with defendants and witnesses. A few weeks ago, the judge disposed of a minor accident case in such summary fashion that an involved woman observer wrote a hot letter to the Norfolk newspapers. She complained that the judge's court was like a three-ring circus. The judge, incredibly, lost his cool altogether and issued a summons against the woman, charging her with contempt of court. A few days later, after the newspapers had raised Cain, the judge had second thoughts and quashed his own citation.

I have been covering courts as a working newspaperman off and on for nearly 40 years. I know firsthand what it means to have a martinet on the bench. For many years, Richmond, Va., was afflicted with a coarse tyrant in the police court, known far and wide as Justice John. In those days, the court operated out of a shabby room in the basement of city hall. In the rear of the room, two cages held the day's defendants—one cage for black, one for white. On call, the bailiff would release the accused to appear before the bench. As often as not, the proceedings lapsed into a travesty of justice, cruel and inhumane. Blacks were routinely humiliated and just as routinely received harsher sentences and treatment.

Justice John was succeeded by a dour and brooding fellow whose contribution to due process of law was the order known as "continued to." For some reason, the word to was pronounced to rhyme with go or so. A defendant charged with some petty misdemeanor was not found guilty or not guilty; he was simply dismissed with the notation, continued to. Now and then, the newspapers would complain of this tenuous business, but nothing ever happened.

It is down in the police, traffic, and small claims courts that the greatest efforts toward reform should be concentrated. It is here that 99 percent of the people will form the only impression they will ever have of the quality of justice in America. Few people ever hear oral arguments in the U. S. Supreme Court. Fewer still attend sessions of their highest state courts. As witnesses, jurors, or litigants in the trial courts, many people do experience the administration of justice at that level.

BUT THE BOTTOM-RUNG JUDGES matter most. Are they courteous, fair, attentive? Do they listen to both sides in contested cases? Are their sentences just? Over the years, in my travels around the country, I have tried to slip into municipal courts to listen for an hour or so. I have seen sleepy judges, rude and arrogant judges, and judges who seemed bored out of their minds. And, of course, I have seen first-rate judges—but not nearly enough of them.

The states take good care of their top appellate judges. California pays them $63,000 annually, New York, $60,600, and Pennsylvania, $55,000. But when the states get down to the trial judges in courts of record, the salary is not as attractive; more than half the states pay such judges under $40,000 a year. It is a reasonable surmise that at the bottom of the ladder, in the police and traffic courts, the pay will seldom attract the best men or women.

If I were reforming things, I would double or triple the salaries at this level. I would require that the judges be robed on the bench. I would campaign for courtrooms that foster an attitude of dignity and respect. Judges in these courts, in my scheme of reform, would be limited to one term of maybe six years; the experience is brutalizing, and six years are enough. Such a shift of emphasis would do more for the image of justice in America than all the other reforms put together. □

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ECONOMY

Productivity Lag Hits the American Dream

"The American dream is being shattered by the slowdown in productivity," says Dr. Jack Carlson, vice president and chief economist of the Chamber of Commerce of the United States.

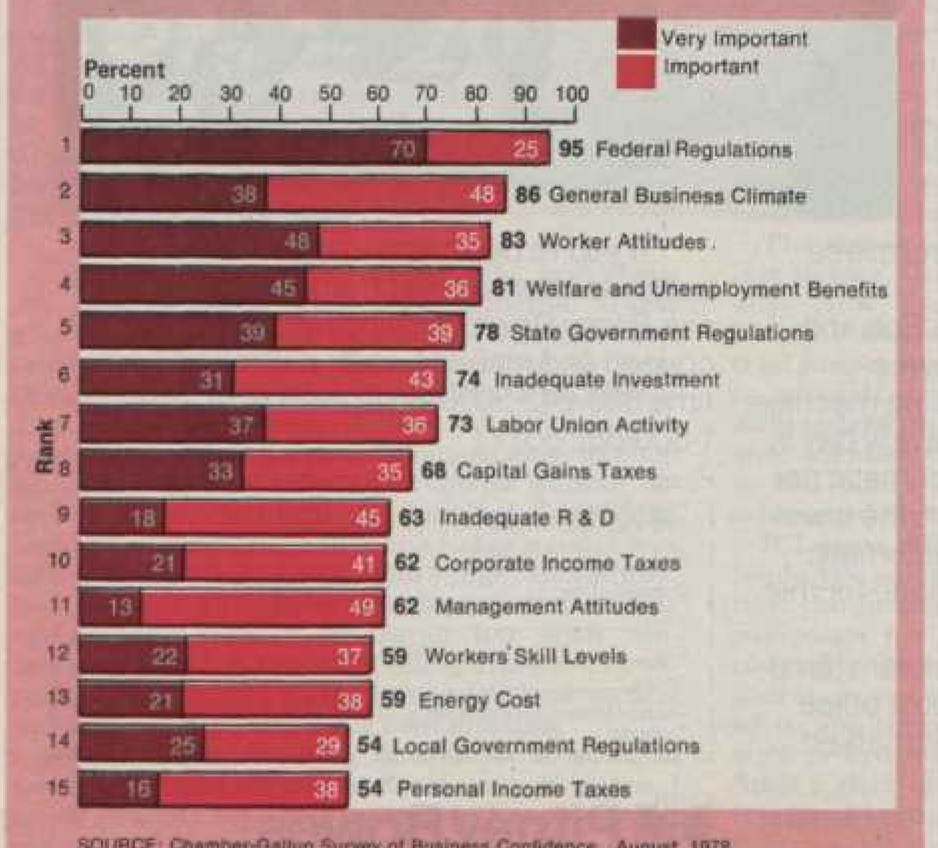
"The average American family has $5,000 less income this year than it would have had because the growth in productivity slowed. The total loss of goods and services is $300 billion in 1978 alone, more than all federal taxes paid by individuals," according to Dr. Carlson.

Between 1947 and 1967, productivity increased at an annual average rate of 3.2 percent; however, from 1967 to 1977 the annual rate of increase dropped to 1.6 percent, the lowest rate among major industrial countries. The slowed rate undermines growth in the standard of living and competitiveness of American goods abroad.

About two thirds of the 62 industries covered by the Bureau of Labor Statistics showed a decline in rates of productivity during 1966-76.

Various experts have identified the causes of the productivity decline as the rapid increase in regulations, the unusually large influx of inexperienced women and young people in the labor force, the shift from manufacturing to service industries, slower growth of investment and research and development, the depth of the 1975 recession, the sharp increases in oil prices and other raw material costs, and restrictive union work rules.

Causes for Slowdown in Productivity Growth Rate



SOURCE: Chamber-Gallup Survey of Business Confidence August, 1978

Business Challenges Wage-Price Guidelines

Business is sounding the alarm on President Carter's newly announced wage-price guidelines.

Leaders in the private sector have already begun mounting a major campaign to make the nation aware that the so-called voluntary anti-inflation plan could actually pose a threat to economic health.

Despite the heavy use of the "voluntary" label in the deluge of pronouncements issuing from the White House, the administration plan contains significant elements of actual controls. Such controls proved economically disastrous in the past.

National Chamber Chairman Shearon Harris points out that guidelines of the type in the Carter plan are "the equivalent of controls, because such guidelines represent government-determined standards for wages and prices enforced by government sanctions, such as procurement policies."

The Carter approach, he said, would straitjacket the entire economy in hopes of restraining a few unions.

Business leaders are also challenging the Carter approach for its failure to recognize the real causes of inflation.

In a recent survey by the National Chamber-Gallup Organization, more than 1,000 business leaders said the leading causes of inflation were excessive government deficits; costly federal regulations; tax policies that discourage productivity-increasing investment, research, and development; union-negotiated wage increases in larger industries; tax and minimum-wage increases, plus other inflationary actions by Congress.

In a direct appeal to President Carter to attack the fundamental causes of inflation, Mr. Harris said:

"American business people, workers, and consumers are the victims, not the cause, of inflation. Rather than placing controls on the symptom of inflation, controls should be placed on the double-digit growth of federal taxes, spending, and regulations. . ."

CORPORATIONS

Encouraging Trends in Import Competition

Products from the major developing nations will be increasingly sophisticated, relying less and less on the natural strength of low-cost labor, says a new study prepared for the Congressional Joint Economic Committee. U. S. firms will find that "competition is likely to be more severe in export markets than in domestic," the study adds.

Consequences of these trends for import competition, says the study, are uncertain but mildly encouraging. "If there is less emphasis in the advanced developing countries on supplying large volumes of particular types of consumer goods—as seems probable on the basis of our limited interviews—import competition may not produce as severe adjustment strains here as in the past," the study says.

Seven countries—Brazil, India, Mexico, the Philippines, Singapore, South Korea, and Taiwan—and the crown colony of Hong Kong were studied. Together, their exports to the U. S. grew by 135 percent from 1970 to 1975, when they accounted for 29 percent of the U. S. imports from developing countries.

The study found that U. S. manufacturers of 18 products are highly vulnerable to import competition from developing countries, and makers of another 140 products face lesser degrees of competition.

The most vulnerable product lines include baskets and bags; men's and boys' coats, jackets, and suits; women's, girls', and infants' shirts; scissors and shears; power transmission chains; tape players and recorders; television apparatus and parts; electrical capacitors; electronic tubes; women's nonrubber and athletic footwear; leather, rubber, or plastic slippers; leather gloves; umbrellas; rubber, leather, and plastic wearing apparel; bicycle tires and tubes; and miscellaneous equipment.

The study says: "The United States is likely to retain an unchallengeable competitive advantage only in products and techniques that are at the very forefront of technological development or that require a huge integrated market for their creation. Examples of these are satellite communications and photography, deep-sea mining, and large electrical generating systems."

The study refers to a product cycle in which new consumer goods and labor-saving machines are likely to be developed first in the U. S. These products would be exported to other industrial and developing countries.

"As the technology required to manufacture these new products became well known," the study says, "and as the items themselves became standardized, production would shift to other industrial nations and later to developing countries for domestic consumption and for export to the United States and other markets."

A classic example of this cycle, says the study, is the shift of the textile industry from the U. S. to Japan and even lower-wage countries. "The same type of transfer is occurring, with a lag of several years, in the automobile and electronics industries," the study concludes.

SMALL BUSINESS

New Policy Expected for Women's Enterprises

President Carter is expected to approve a women's business enterprise policy shortly and establish an interagency committee to develop new policies for female business owners.

PHOTO: MAGGI CASTELLOE

SBA's Cloherty: Procurement needs specific attention by the government.

Sources believe that the committee will be coordinated by Sarah Weddington, who replaced Midge Costanza in September as the White House liaison for women's affairs.

Meanwhile, the Office of Federal Procurement Policy has adopted the definition of a female-owned business suggested last July by an interagency task force.

The definition says that at least 51 percent of the business must be owned, controlled, and operated by a woman or women. Controlled is defined as making policy decisions. Operated is defined as actively involved in the day-to-day management.

The procurement office, along with 70 other government agencies, was responding to recommendations submitted to the White House by the task force on women business owners.

Patricia M. Cloherty, deputy administrator and chairman of the Interagency Committee on Women's Business Enterprises, says acceptance of the definition will allow the government to collect procurement data and expose any discrimination in the awarding of government contracts.

"Procurement," she says, "is one of three areas that need specific attention by the government."

The other two, she adds, are educating the female business owner in how to run her business effectively and implementing federal policy to correct sexual bias.

A status report shows that of the 71 agencies involved, most have responded, and some have adopted the specific recommendations. Few, however, proposed new initiatives and one—the Securities and Exchange Commission—did not cooperate.

AGRIBUSINESS

Higher Sales of Farm Equipment Predicted

Based on a predicted 12 percent increase in gross farm income to $121 billion this year, agricultural experts believe that farmers will be buying more farm equipment, fertilizers, and other production items in 1979.

"Nearly 60 percent of all farm income is earned off the farm," explains Steve Guebert, an economist with the Agriculture Department. "The dollar and percentage increases pertain only to the money that farmers will make from commodities."

Likewise, statistics on the purchase of equipment and related needs are based on gross farm income. Last year, farmers spent nearly $85 billion on production.

John Davies, International Harvester's manager of communications, North American operations, says that retail sales of farm equipment have been up since April. "In the third quarter," he says, "our sales in the U. S.

Nation's Business OUTLOOK

were 17 percent higher than last year's third quarter."

However, a spokesman for the American Farm Bureau Federation believes that the dollar increase in gross farm income is not all that significant.

"This year, farmers will net only 17 cents of every earned dollar," Mr. Davies says.

Retail sales of farm equipment have been rising since last April, and continuing improvement is predicted for the fourth quarter and into 1979.

INTERNATIONAL BUSINESS

Bill to Phase Out Tax Deferral Expected Again

Legislation to phase out the deferral of U. S. income taxes on profits earned by American-controlled corporations abroad will be introduced again next year.

The measure, proposed by the administration, was introduced in the 95th Congress as part of a major tax bill by Sen. Edward M. Kennedy (D.-Mass.). A Kennedy aide said that the senator will make further attempts to bring the proposal to a vote in the new session "when a proper vehicle is found."

The National Chamber opposes the proposal because it would have serious repercussions for the nation's already sagging balance of payments as well as the general health of the domestic economy.

A study by James T. Lynn, former director of the Office of Management and Budget, says that U. S. corporations sell billions of dollars worth of goods and services to or through their subsidiaries abroad. This, in turn, produces millions of U. S. jobs, increases exports, and generates tax revenues that would be lost if the income tax deferral were phased out.

Mr. Lynn told a news conference: "Anything that could have an adverse effect on the balance of payments would be absolutely wrong." He says the proposal could result in millions of jobs lost.

The Lynn study, which was done for the National Chamber's new Task Force on International Tax Policy, concluded that a deferral phase-out would also cause an upward pressure for foreign aid. Underdeveloped nations now give special tax treatment to U. S. corporations that come in and help to develop their economies. This practice would end with the end of the deferral, and developing nations would have to depend on foreign aid instead, Mr. Lynn says.

LABOR

Battle Expected Over Workers' Compensation

Battle lines will form early in the next Congress over legislation to create a comprehensive, nationwide system of workers' compensation benefits.

Business has criticized legislation proposed in the past as costly and counterproductive.

Andre Maisonpierre, vice president of the National Chamber's Employee Benefits Committee, told a Senate subcommittee recently that such legislation would fail to achieve the needed balance between benefits and costs.

"The spiraling upward cost of workers' compensation is beginning to create serious affordability problems for some employers," he says.

"Unless remedied at an early date, the imbalances of the system will lead workers' compensation to a position similar to the well-publicized morass of medical malpractice and product liability."

Mr. Maisonpierre says the imbalances reflect state legislative efforts directed at meeting the high benefit recommendations of a 1972 national study on state workers' compensation laws "without simultaneously attempting to achieve much-needed reform in the benefit redistribution system."

BUSINESS TRENDS

Hiring Slows But Recession Unlikely

A nationwide survey of 6,000 public and private employers shows that hiring expectations for the fourth quarter, while lower than they were a year ago, do not presage a recession.

Mitchell S. Fromstein, president of Manpower, Inc., says his firm's survey "points to a strong hiring outlook among manufacturers and a seasonal climb for the wholesale and retail trades."

The weakest section of the country now is the West, which is unusual, says Mr. Fromstein. The major cause of the drop is thought to be California's Proposition 13, which is cutting into hiring by public agencies and educational institutions. The firm reports that California's hiring plans are lower than those of other states in the West.

The boom in the South continues to lead the nation, with every industry forecasting substantially greater hiring. In the Northeast, employers are optimistic for the first time in two and one-half years. Thirty percent expect to increase hiring.

The status quo is strongest in the Midwest, where 60 percent of the firms surveyed see no change. Twenty-nine percent plan to increase hiring, and nine percent plan staff cutbacks.

Andrei Glasberg, director of Manpower's international research and development staff, says that the

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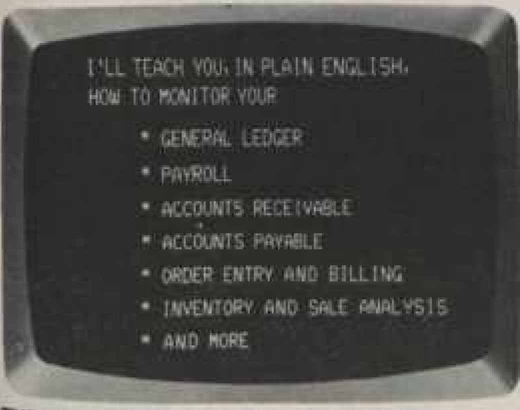

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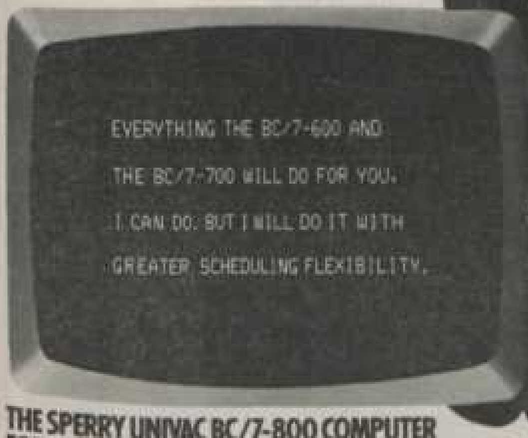

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"psychology of economics and politics points to some downturns early in 1979 and a recovery through 1980." While there will be some growth, he adds, there is a great deal of uncertainty in the business community.

Mr. Glasberg also predicts that:

- Public administration and education "won't do well; the psychology of Proposition 13 affects them throughout the country."
- Construction will slow down, partly due to the higher cost of money. The inflationary trend in housing will be reduced.

He foresees stability in finance, insurance, real estate, transportation, and public utilities. Services, he says, "will keep step with public demand."

CREDIT AND FINANCE

Stemming Bank Exodus Will Be Top Priority

Legislation aimed at halting the exodus of member banks from the Federal Reserve system is expected to be a top congressional priority next year.

In 1977, 69 of the Fed's 5,700 member banks withdrew, and in the first half of this year, 39 more left.

G. William Miller, Federal Reserve Board chairman, says the 1978 figure was probably underestimated since many banks are waiting to see what Congress does about reserve requirements before making any decisions.

Mr. Miller also noted a growing trend toward big bank withdrawal from the system. Until recently, he said, most dropouts had been smaller banks with $50 million or less in deposits. In 1977, however, 15 of the 69 banks leaving the system had deposits of $100 million or more.

Work on House and Senate versions of the legislation stopped after several meetings between the leaders of the two banking committees and Mr. Miller. Both sides agreed that more study of the bills was needed.

The bills call for uniform reserves at all large banks, even if they are not Fed members. Small banks would be exempt from all reserve requirements, and requirements for medium-size banks would be generally lower.

The American Bankers Association is vigorously opposing the legislation. It contends that the provisions of the present bills are too vague.

GOVERNMENT

Federal Doors May Open Soon for Travel Agents

More than 8,000 travel agents may finally be allowed to compete for some of the billions of dollars the federal government spends annually on travel.

Current law requires direct procurement of services with a carrier for official government employee travel, except when the employee is outside the United States and cannot find a local carrier to honor a U.S. government travel voucher. Then, a travel agent may be used.

A General Accounting Office report and hearings by the House Committee on Small Business have uncovered evidence of millions of dollars wasted on travel costs.

Much of the money, says subcommittee chairman Rep. Marty Russo (D.-Ill.), could have been saved by travel agents steering federal business travelers to discount fares.

Some examples of waste given by the GAO are:

- The Federal Aviation Administration spent $312,000 unnecessarily on air travel in 1976 for trainees flown to Oklahoma on individual fares.
- Defense Department trainees spent an excess of $230,000 because they didn't use excursion fares.
- The General Services Administration could save $306,000 a year on routine flights to Denver.

Testimony at the hearings indicated that more money could be saved by using alternate transportation. Rep. Albert Gore, Jr., (D.-Tenn.) says that employees traveling to Boston, Philadelphia, and New York should use the train. Energy Department employees alone, he says, could save more than $40,000 a year if they walked across the street to a train instead of driving to the airport for a flight.

The prohibition against travel agents started in 1899, when there were very few. At that time, the Comptroller of the Treasury directed that transportation request forms be presented only to a carrier ticket agent. When the General Accounting Office took over the Comptroller's powers in 1921, the directive continued.

When the form was revised by the GAO in 1947, the instructions became part of the regulations for obtaining transportation. And in 1952, the Comptroller General directly prohibited use of commercial travel agencies.

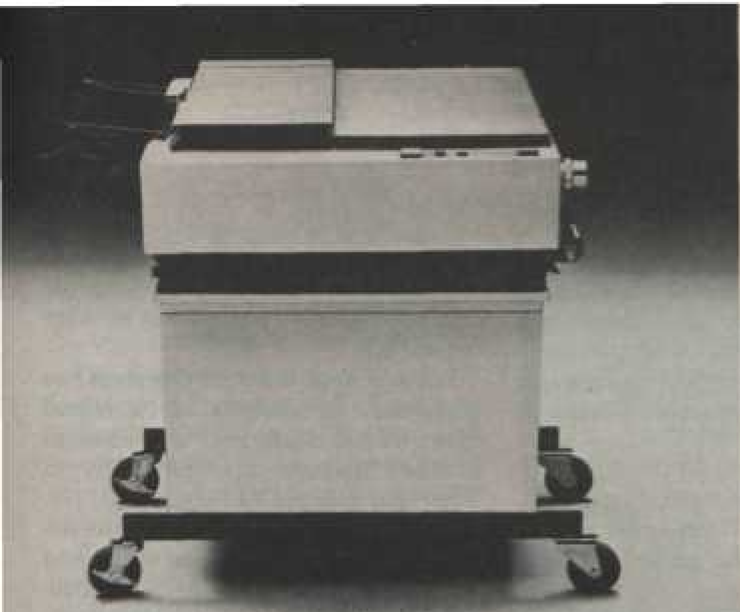
The GAO report concludes: "The information GAO has obtained is inconclusive as to whether or not a change in the present prohibition is warranted on a cost-benefit basis.

GAO would, of course, not object to lifting the prohibition on an individual agency basis to the extent that such action is shown to be more efficient and less costly."

Travel agents are willing to compete—even on a spot-repeal basis. They may soon get a chance to prove the statement of Rep. Millicent H. Fenwick (R.-N.J.) that: "Anything business does costs less than anything government does." □

PHOTO: AMERICAN AIRLINES

Federal employees should use the train to save costs, says Rep. Albert Gore. But flying to Dallas-Fort Worth (above) is still the most feasible way to go.



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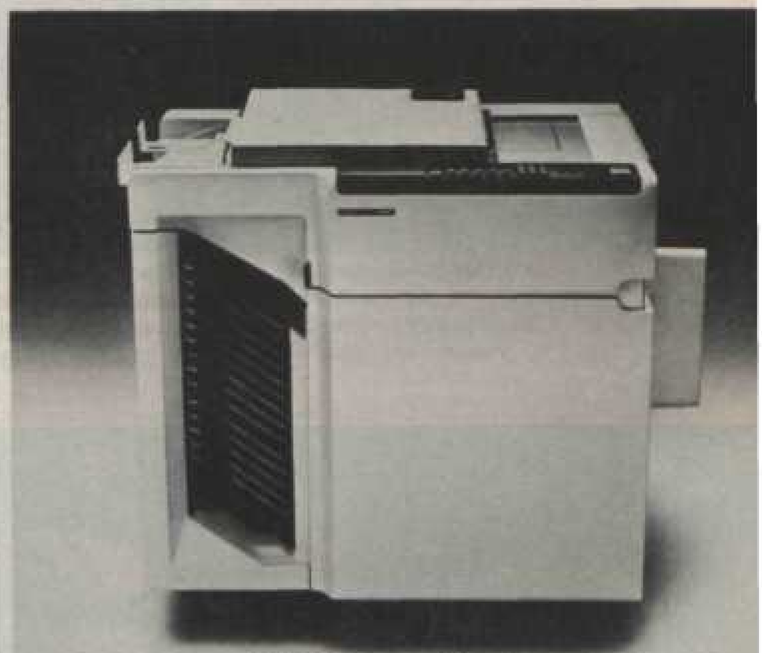

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More Ups Than Downs for Business in the 95th Congress

WHEN the first New Deal Congress adjourned in 1933, President Franklin D. Roosevelt told the members: "This Congress will go down in history as one of large accomplishment for the national good."

There was little doubt the 73rd Congress had been an historical one.

It had come to Washington with a mandate to lead the nation out of a crushing depression.

Under the Roosevelt leadership, the legislative branch launched a large-scale government involvement in economic and social areas primarily through regulation and spending.

While the depression receded and economic health returned, that philosophy endured. Successor Congresses continued to expand the role of the federal government in business and economic affairs, and in social programs as well.

Today, about 90 federal agencies have regulatory functions, and a private research group recently identified 182 separate federal programs for transferring taxpayers' money to other individuals.

But now that the 95th Congress has adjourned, an analysis of its record shows that it might well have marked another historic turning point in American political history.

There is ample evidence that the nation is seeing the beginning of the end of the cycle begun in the 73rd Congress, which viewed an ever-larger government presence as the answer to most problems.

Americans who agree there might have been a limited need for such a presence in the early 1930's have a totally opposite concept of government in the late 1970's.

They have begun to protest costly government policies which fuel inflation. Polls also show that individuals are looking on government regulation more and more as a cause of problems, not an answer.

The extent of that changing concept

PHOTOS: RICARDO THOMAS

Rep. Jack Kemp (R.-N. Y.), co-author of a major tax-cut proposal, and Rep. Marjorie S. Holt (R.-Md.), who favors spending limitations, discuss joint strategy on Capitol Hill.

Freshman Sen. Richard G. Lugar (R.-Ind.), was a leader of the bipartisan Senate bloc that defeated union-oriented legislation to amend federal labor law.

is now becoming more obvious, but it was not generally perceived going into the 95th Congress.

The combination of a newly elected Democratic President and a Democratic Congress was viewed by the labor-liberal political coalition as a golden opportunity for realizing its most ambitious legislative goals.

Political commentators predicted increased labor clout in Washington as the union leaders who had helped elect President Carter began to collect the rewards of that assistance.

Business was extremely worried that the united White House-Congress political team would produce a series of shocks the economy would find it difficult to withstand.

How do those early forecasts stack up now that the 95th Congress has adjourned?

Dr. Richard L. Lesher, president of the Chamber of Commerce of the United States, said in a session-end summary:

"In general, the 95th Congress was far more sensitive to the mood of the people than we had expected it to be.

"Public clamor for a cutback in governmental excesses in bureaucracy and taxes resulted in some progress."

Hilton Davis, the National Chamber's legislative vice president, says that "we have not fared badly at all—really much better than expected with Democrats holding the White House and a two-thirds majority in Congress.

"The 95th Congress has been far more conservative and favorable to business than anticipated after the November, 1976 elections.

"But we have worked for that outcome," Mr. Davis adds, noting that the National Chamber presented testimony on nearly 222 measures during the last Congress, compared with 146 in the previous Congress and 98 in the one before that.

Notable victories

A sharp upswing in political participation by business is also a factor in the new congressional climate for business issues. That participation includes the formation and support of political-action committees to raise funds for probusiness candidates.

The National Chamber took the lead in alerting the nation to the fact that a cargo-preference bill would intensify inflation. Rep. Paul McCloskey, Jr., and Rep. John H. Rousselot, both California Republicans, spearheaded the congressional opposition that defeated the measure.

In the 95th Congress, business scored notable victories in preventing the expansion of the federal regulatory apparatus, in resisting organized labor's efforts to strengthen itself at the expense of business, in fighting attempts to embark on various big-spending programs in addition to those already authorized, and in improving international trade policies.

In addition to action on specific bills, the National Chamber was in the forefront of concentrated campaigns that brought home to Congress the importance of pursuing tax policies that encourage job-creating investment, and the extent to which inflation has become a pressing national problem.

However, Dr. Lesher pointed out, "the amount of tax relief was greatly diluted in the rush to adjourn."

Business also suffered some setbacks during the 95th Congress, losing in such areas as extension of the Council on Wage-Price Stability, pregnancy disability benefits, and increases in the mandatory retirement age. But the losses were far fewer than the victories. There was also a sizable list of middle-ground developments that contained some desirable and some undesirable provisions for business.

Washington analysts offer various reasons for what they see as the beginning of a shift away from the big-government, big-labor, big-spending philosophy of Congress. While scarcely any realistic observer believes that approach to national problems is disappearing, they do see some encouraging signs of moderation.

Sen. Barry Goldwater (R.-Ariz.), who has long viewed events in Washington from a conservative perspective, believes that even Democrats coming to Congress are more conservative than would have been expected in the past.

"The American people have gotten pretty well fed up with what they are living through," Sen. Goldwater says, "particularly inflation."

And, he says, speaking for the conservative bloc in Congress, "the voters are sending us the kind of people who can work with us."

A Democratic newcomer to Congress shares the views of the Republican elder statesman. Rep. Dale Kildee of Michigan told NATION'S BUSINESS: "I think Democrats have come to realize that when business is expanding and prospering, there are more jobs."

Newer members of Congress in particular, he says, "seem more aware that the health of the economy de-

Where the Business View Prevailed

These are examples of the major issues on which the National Chamber won important victories on behalf of the business community in the 95th Congress:

Energy—Some of the more onerous provisions recommended originally by President Carter, such as the crude-oil tax, were eliminated from the final version of the National Energy Policy Act. Nevertheless, some key provisions opposed by business, such as the extension of regulation to intrastate natural gas, were approved.

Tax Policy—While the final version of this bill fell significantly short of business's investment-incentive goals, some observers welcomed the limited congressional moves toward encouraging investment, viewing them as a starting point for new initiatives next year.

Labor Law Revision—Labor leaders, worried about lagging membership drives, sought passage of legislation that would have made it easier for unions to organize and harder for employers and employees to resist organization. The measure died in the Senate in the face of intensive opposition from business.

Consumer Protection Agency—The House, which previously approved establishment of a new federal bureaucracy to represent consumers before government agencies already charged with representing consumer interests, reversed itself and rejected the measure. A groundswell of public opposition to bigger government was cited as the basic reason for the turnabout.

Common-site Picketing—In another major setback for labor, the House rejected a bill that would have allowed unions to picket and shut down a construction site where many contractors were at work, although the union's grievance was with only one contractor.

Cargo Preference—A bill that would have required that 9.5 percent of imported oil be carried in U. S. ships was defeated after the National Chamber and other groups pointed out the measure would be inflationary.

Alaskan Gas Pipeline—Approved was a measure favoring a Canadian route for a pipeline bringing natural gas from Alaska.

Career Education—Congress passed a bill to encourage schools to give more attention to career education.

Congressional Campaign Subsidies—A move to finance congressional campaigns out of the U. S. Treasury was rebuffed. Business opposed the bill because of its cost and the fact that it would have increased the already substantial advantage incumbents have over challengers.

Corporate Social Performance Index—The Commerce Department proposed the government establish a procedure for measuring corporate social performance but withdrew it in the face of business opposition.

Customs Reform—Congress enacted legislation to streamline and modernize archaic U. S. customs law.

Department of Energy—Language that appeared to open the way to national economic planning was deleted from legislation creating the new department.

Emergency Farm Bill—A highly inflationary and costly emergency farm bill was rejected.

Federal Reserve Board—Efforts to restrict independence of the Federal Reserve Board were rejected.

Hospital-cost Containment—A bill to set ceilings on hospital charges, viewed by business as a step toward a broader program of price controls, failed to win passage.

Illinois Brick—The National Chamber successfully opposed a bill that would have allowed any party in an anti-trust suit to sue any other party anywhere in the distribution chain, thus making business firms vulnerable to multiple suits for damages.

Medicare-Medicaid—Congress adopted amendments to curb fraudulent and abusive practices.

Occupational Safety and Health—Congress passed a requirement that OSHA formulate plans for on-site consultation for small businesses. The legislation also continued provisions exempting agricultural employers with ten or fewer employees and exempting from first-instance fines employers with fewer than ten minor violations.

Overseas Private Investment Corp.—Congress extended the insurance and guaranty-issuing authority of OPIC to Sept. 30, 1981.

Renegotiation Board—Congress passed legislation terminating the renegotiation board on March 31, 1979.

Reorganization Authority—Congress approved restoration of presidential authority to issue government reorganization directives, effective unless vetoed by Congress within 60 days.

pends on the state of health of the free enterprise system." Rep. Kildee, a member of the House Small Business Committee, said small business in particular was far better organized than it has been in the past in making its voice heard on Capitol Hill.

Dr. Arthur Burns, former chairman of the Federal Reserve Board and one of the nation's most respected economists, sees "faint flickerings ... that the American people are becoming less passive about the dangers facing our nation."

He gives this appraisal of the signs of changing political perspectives that made their mark on the 95th Congress:

"The recent tax revolt of California citizens may be a symptom of a general awakening of the middle class. Of late, many politicians have been vying with one another in proclaiming inflation as our number one problem.

"Trade unions have been unable to persuade Congress this year that their market power needs strengthening. Much is heard these days in congressional halls about the importance of reducing business taxes. A move to cut back, rather than increase, capital gains has won widespread support.

Congressional action over the next few years will determine whether the events of the 95th Congress did in fact mark a major turning point in American history, or whether they were acts of political expediency.

But there's little doubt Congress has started to move away from the philosophy expressed by freshman Rep. J. Buell Snyder (D.-Pa.), who declared in an adjournment-day speech to the 73rd Congress that the mission of the legislative branch was "to protect all the people all the time. . . ." □

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MNY/3

Can Business Collar White-Collar Crime?

The problem is pervasive, the losses are staggering. Now, the National Chamber is helping the government in the fight

By Tony Velocci

J. Kevin Murphy, a director of the National Chamber, chairs the Business Advisory Panel on White-Collar Crime.

THE SCENARIO is all too familiar. A computer programmer devises a scheme to penetrate a computer's built-in safeguards and gets away with a bundle of money. No tracks are left behind. And the people responsible for the computer are not even aware of the crime.

Computer-related crimes cost businesses at least $100 million a year, according to the Chamber of Commerce of the United States. But that is just small potatoes compared to the estimated $44 billion annual cost of all white-collar crime.

The staggering figure has prompted a new and concerted attack on this problem that pervades the nation's business community.

One prong of the attack is the Federal Bureau of Investigation, which has designated white-collar crime one of its top three priorities. About 1,250 special agents of the FBI's investigative force—15 percent—are assigned to white-collar crime. For fiscal 1979, the agency has budgeted more than $65 million to fight white-collar crime, a two percent increase over last year.

A second prong is the National Chamber's Business Advisory Panel on White-Collar Crime, which will assist Attorney General Griffin Bell on the Justice Department's national economic-crime project. This is aimed at coordinating the nation's public and private resources in curbing crimes against business.

Time for action

Chairman of the advisory panel, which is meeting in Washington this month, is J. Kevin Murphy, president of Trailways, Inc., of Dallas. "There have been enough studies on this national problem. Now we need to find solutions and implement them," says Mr. Murphy.

Crimes against business have been rising steadily throughout the 1970's. The Commerce Department estimated in 1975 that ordinary crimes would cost business more than $23.6 billion, up 50 percent from 1971. That figure includes a $6.5 billion loss for retailers, $2.4 billion for wholesalers, $3.2 billion for manufacturers, and $4.3 billion for service industries—all significantly above 1971 levels.

The $44 billion loss estimated in 1978 by the National Chamber comes from a variety of white-collar offenses: bribery, kickbacks, and payoffs; deceptive practices such as the use of counterfeit products, illegal aliens, and sweetheart contracts; credit card and check fraud; embezzlement; pilferage; insurance fraud; securities thefts; and receiving stolen property. The estimate does not include the cost of combating white-collar crime or losses due to antitrust violations and industrial espionage.

"In most cases, all these crimes are committed without violence, but they attack the very trust that is so essential to the American economic system," says William H. Webster, who became director of the FBI last February.

"Because of the highly sophisticated nature of the schemes employed, white-collar crimes comprise one of the most difficult challenges facing law enforcement today," he adds.

Until recently, very little comprehensive data existed on the nature of white-collar crime, except that it affects almost every business in every part of the country. However, studies conducted by business organizations as well as a new awareness and emphasis among law enforcement agencies are revealing a composite picture of white-collar crime.

It is now known, for example, that the success of many of these criminal acts depends on the corruption of public officials. Moreover, white-collar criminals frequently occupy positions of responsibility and trust in government, business, industry, and the professions.

Few judicial precedents

Police and prosecutors are often ill-prepared to handle crimes against business, especially the more complex kind. For example, the audit trail of computer-assisted crimes is usually extremely difficult to track. In fact, sophisticated criminals can program a computer to erase any record of tampering. Result: Chances are slim of gathering enough evidence to convict or even indict.

Because white-collar crime is relatively new, there are few judicial precedents upon which the prosecuting attorneys can rely to build cases. It is sometimes difficult to determine precisely where the line between illegal and shady practice lies.

Also, white-collar crimes are among the most under-reported offenses in the U. S. One reason is that some companies are reluctant to admit they have been defrauded. Frequently, top management fears the loss of public trust, public embarrassment, or an adverse effect on the company's stock.

Patterns of sentencing for white-col-

lar criminals appear arbitrary and discriminatory. For instance, the American Bar Association reports that 91 percent of those convicted of bank robbery from mid-1976 to mid-1977 were sentenced to prison, while only 17 percent of those convicted of embezzling bank funds were jailed.

Losses due to bank fraud are estimated at $80 million a year and can easily put small firms out of business. Fraud was a major factor in the forced closing of about 100 banks during the past 20 years.

Top FBI concerns

Bank fraud and embezzlements are one of the FBI's top concerns in its white-collar crime program. With few exceptions, the FBI will get involved only if the loss is $100,000 or more. A significant number of embezzlements and bank fraud cases can be handled by local and state enforcement agencies, enabling the FBI to apply its extensive resources to the more complicated cases, many of which involve multiple state investigations.

The engineers of bank frauds fall into three categories: organized crime figures, confidence men, and business people, many of whom are trying to save a debt-ridden business. Most fall into the last two categories.

Bribes, kickbacks, and payoffs occur in company operations such as purchasing, sales, advertising, capital expenditures, engineering, contract services, employment, insurance, and electronic data processing. Altogether, they cost business about $3 billion annually. These crimes also occur in negotiations between labor and management and in transactions between business and government. Many times they involve the corruption of public officials.

"We have more than 500 cases of public corruption under investigation involving members of Congress, elected state officials, mayors, chiefs of police, right down the line," says Mr. Webster. "Because they fit our general description of white-collar crime, we keep track of them through our on-line computer system."

The financial impact of consumer fraud is about $21 billion a year. "There is more crime committed against consumers every day than there is crime in the streets," says a U. S. district attorney. "The public is constantly being fleeced."

About 800 different devices are used to cheat unsuspecting consumers. They include phony charities, unordered merchandise, work-at-home opportunities, medical clinics which give false diagnoses leading to expensive treatments, phony going-out-of-business sales, fake contests, unnecessary home repairs, degree mills, collusive bidding, price-fixing conspiracies, and unscrupulous correspondence schools.

In today's modern cashless society, Americans own about 300 million credit cards and write approximately 26 billion checks a year. The opportunities for fraud are virtually unlimited.

Costs staggering

By conservative estimate, card issuers absorb an estimated $100 million annually in fraud-related cases. About 20 percent of these come from credit cards that are issued on false applications. Cards that are issued to but never received by legitimate applicants account for another 20 percent. Most losses, however, involve cards that are either lost or stolen from cardholders.

Check fraud is estimated at $1 billion annually, which covers not only bad personal checks but also bogus payroll checks.

In one case, an employee gained access to a firm's check-writing machine, executive signature imprinter, and blank checks. The person wrote $1.1 million worth of fraudulent checks and cashed them. So much for internal controls.

Many businesses consider internal theft by embezzlers and pilferers their most serious problem. Between five and eight percent of employees steal in volume, while another 50 percent steal to a greater or lesser degree.

The cumulative effect is enormous. Industry sources attribute 60 to 70 percent of the shortages in retail inventory to employee theft, which also adds to the price of merchandise, sometimes by as much as 15 percent.

One of the most infrequently prosecuted of all criminals is the receiver, or fence, who knowingly purchases, sells, or handles stolen merchandise. The fence's job is to serve as the middleman by funneling stolen property purchased from thieves to various outlets for eventual sale to consumers.

Unscrupulous business people are part of the chain. "The distribution of stolen property is not easily achieved without connections with some so-called legitimate businessmen ... so that it can be resold to consumers through an outlet that is seemingly legitimate," one fence told the Senate Select Committee on Small Business.

Take the case of Mack who, the committee heard, operated three electrical outlet stores. In 1970, he purchased stolen electrical construction materials valued at about $1 million. To this amount must be added the losses to the construction industry in labor costs, delays, and replacement of the stolen property. An assistant district attorney described Mack's operation as typical.

In all, the receipt of stolen property accounts for about $3.5 billion of the total cost of white-collar crime.

How many securities have been

A recent discussion between FBI Director William H. Webster (right) and National Chamber President Richard L. Lesher focused on crime and the judiciary system.

Wanted: Computers That Will Not Compute for Criminals

Perhaps the most frightening and potentially dangerous form of white-collar crime involves the use of computers. Once an automatic data processing system has been compromised, it is as easy to steal $1 million as it is to steal $100.

Consider the real-life case of a former New York City bank teller who had access to a computer terminal controlling a branch bank's accounts.

A trusted, nine-year employee who worked as a supervisor, John Burke—a fictitious name—credited deposits to customer accounts. Then, using the computer, he altered the record, reduced all or part of the amounts, and helped himself to the difference.

When a customer noticed a discrepancy in his balance, Mr. Burke passed it off as a computer error. He then used his terminal to transfer money from other accounts into that of the alert depositor.

Eventually he was caught—by accident. Police raiding a gambling operation discovered betting receipts that showed Mr. Burke was wagering up to $11,000 a day. His salary at the bank was $11,000 a year. Over three years, Mr. Burke had taken about $1.4 million from customers' accounts.

"Considering the growing reliance on computers and the proliferation of their use, computer-related crime may be only in its infancy, with unimaginable consequences possible," says Susan Hubell Nycum, a San Francisco attorney specializing in computer law. She is chairman-elect of the American Bar Association's section on science and technology and a member of the board of advisors to the math and computer sciences section of the National Science Foundation.

Ms. Nycum and Donn B. Parker, a computer scientist at Menlo Park, Calif., investigate all kinds of computer abuse. Their research is helping others to design more sophisticated safeguards. They have analyzed hundreds of cases which show that while the average bank fraud or embezzlement nets less than $100,000, the average computer fraud totals $430,000.

Computerized banking—electronic fund transfer—is spreading and is "potentially the most vulnerable type of computer," says Mr. Parker. "It has the greatest risk because of the large number of transactions."

More than 10 percent of the country's banks, savings and loan institutions, and credit unions either offer or plan to offer some form of computer-based banking service, according to the Electronic Money Council, a group of financial institutions set up to promote EFT.

Current losses from computer-related crimes in the United States are estimated to range from $100 million to $300 million annually. Some criminologists believe that only 15 percent of these crimes are recorded.

There are about 150,000 commercial-scale computers in use in the United States today. This number is expected to double by 1985, says Ms. Nycum. Moreover, the growth will be accompanied by a comparable increase in the kinds of computer programs handling assets.

Computer-related crime is not restricted to just stealing money. Capt. Crunch got his nickname because he discovered that a toy whistle given away in cereal boxes could generate perfect pitch. By blowing the whistle into a telephone, he was able to make thousands of dollars' worth of free phone calls.

Capt. Crunch is now in prison because a home computer he hooked into the telephone lines gave him away.

Law enforcement training, like many of the criminals, is getting more sophisticated, particularly in the area of computer-related offenses. For example, the FBI now offers a two-week course at Quantico, Va., to acquaint agents with computers and automated accounting systems. About 500 special agents have taken the program. Another 70 special agents have completed one month of schooling to help them handle complicated computer fraud cases. Similar training is offered to U. S. district attorneys.

Dr. Dennis Branstad, National Bureau of Standards, displays device used to protect integrity of computers.

Of course, built-in computer safeguards are only as good as the computer programmers who feed them into the apparatus. Major projects currently under way will improve computer security.

But, says Frederick Huber, a computer expert who works for the New York Telephone Co., "computer crime is exploding. Where computer technology is in the 21st century, computer security is in the days of the Conestoga wagon."

stolen or used in fraudulent schemes, and what is their total value? Law enforcement agencies can only guess. As of mid-1975, about 400,000 lost, stolen, or missing certificates worth $5.3 billion were listed in the computer system of a company that was established to validate the authenticity of securities.

Since the 130 or so subscribers to the system represent only about 10 percent of the securities industry, the total value of all outstanding lost, stolen, or missing securities is probably much higher.

The insurance industry does not know for certain how much is lost to fraudulent claims each year but admits that it is substantial.

"It is difficult to estimate the annual cost of insurance fraud in 1977 at anywhere below the $3 billion mark, and this is simply the direct cost," says James F. Ahern, director of the Insurance Crime Prevention Institute. "The

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increased personnel to handle false claims and the costs of security combine with those fraudulent claim dollars to increase the average premium an estimated 15 to 20 percent."

The largest case on record involved the Equity Funding Company of America, which issued 64,000 false insurance policies to create a barrage of phony claims. The result was a $2 billion fraud.

Organized crime influence

As if white collar crime is not enough of a threat to business and a challenge to law enforcement, there is a darker side to the problem—the influence of organized crime.

"In most instances, organized crime's movement into business is done quietly through legitimate investments," says Edwin J. Sharp, chief of the FBI's organized-crime section.

"These investments provide hoodlums with show money for tax purposes. This makes it possible to launder illegal funds, set up front corporations to cover their criminal operations, and to bankrupt companies at a profit when they no longer have any use for them."

The House Committee on Government Operations reported that racketeer holdings in New York City real estate alone may run as high as $300 million. In another major city, the underworld controls 89 companies with total assets of more than $800 million.

The Senate Special Committee to Investigate Organized Crime in Interstate Commerce uncovered 46 types of businesses into which organized crime and other criminals had channeled their funds, including coal, oil, steel, shipping, and auto manufacturing.

FBI Director Webster, testifying before a House Appropriations subcommittee earlier this year, said there are strong indications that members of organized crime have also gained a foothold in the manipulation of several financial institutions around the country.

The price of white-collar crime goes far beyond the $44 billion estimated loss to American businesses.

A major long-term impact is the debasement of competition and a loss of public confidence in business, industry, and the professions. Often, the end result is increased pressure for new government regulations that strap free enterprise.

"Government guidelines saddle managers with far more rigid and cumbersome requirements than probably would have been the case if industry had faced the problems squarely and instituted appropriate action itself," says Dr. Richard L. Lesher, president of the National Chamber.

Law enforcement officials are frequently asked for simple answers to the problem, as though a complete antidote exists, says Joseph E. Henehan, chief of the FBI's white-collar crime section. "There is neither a simple answer nor a substitute for business's concern for the internal controls of its own operations.

Breakdown of controls

"A common thread to so many white-collar crime cases is the breakdown of internal controls within an organization," says Mr. Henehan, who is also a certified public accountant. For example, the FBI recently investigated a case in which money was stolen from a bank's night deposit box. Agents found that a young employee had sole responsibility for collecting and disposing of funds from the box.

"A breakdown of basic internal controls contributed to this theft," says Mr. Henehan. "Top management should have asked two questions: Why was there a breakdown, and what safeguards were missing?"

For businesses that are serious about reducing their exposure to white-collar crime, the starting point is a close self-examination.

"The atmosphere of workable, internal security must come from top management," says Mr. Henehan. "Without that commitment, generally you are apt to find a breakdown of internal controls."

The FBI's crime resistance program provides guidance on how businesses as well as people can minimize their vulnerability to crime.

The program has achieved only limited success so far, largely because businesses and the public have been slow to adopt it. However, some major

Citizens Who Did Something About Crime

One year ago, the citizens of Moon Township, a suburb of Pittsburgh, decided to stop being victims of crime.

With the guidance of two local police officers and two members of the FBI, they formed a crime resistance committee that included 224 street captains—citizen volunteers—who watched for suspicious activities within the elementary school district to which they were assigned. Churches, schools, business people, and crime victims got involved.

The program is still going on today; the results have been extraordinary.

During the first seven months of 1978, burglaries declined 28 percent, and the incidence of breaking and entering dropped 18 percent in residential areas, compared to the same period last year. In addition, the rate of serious crimes that were solved improved 77 percent.

"We've achieved fantastic results because the people involved were task-oriented," says Special Agent Paul Cundiff, the FBI's crime resistance coordinator for the Pittsburgh division, a 26-county area in Pennsylvania and West Virginia.

"It can be done in any town, but it takes total community involvement," he adds.

Communities and businesses interested in crime resistance programs should contact the Crime Resistance Office, Federal Bureau of Investigation, Washington, D. C. 20535.

Law enforcement agencies throughout the U. S. utilize the FBI's crime laboratory, which is considered the best in the world.

The High Cost of Shoplifting

Retail sales for 1978 could reach an all-time high of $771.7 billion, surpassing last year's total of $706 billion. That's the good news.

The bad news is that shoplifters will siphon about four percent off the top. Result: Retailers will incur about a $31 billion loss, and consumers will pay higher prices.

Shoplifting is the most widespread crime affecting retail stores today. Reported incidences rose 73 percent between 1967 and 1972. Small retailers are hardest hit. Some of them, unable to compensate for the drain, are forced into bankruptcy.

About four million shoplifters are apprehended each year, according to the Commerce Department. But only one of every 35 shoplifters is caught. The FBI reports that three times as many people were arrested for shoplifting in 1976 as in 1970.

In a recent study conducted by a major security service firm, 500 shoppers were followed at random in a New York City department store. One of every 12 was observed stealing an item while in the store.

The cost of combating shoplifting is expensive. Legal fees as well as the time of executives and security officers involved may exceed the value of the stolen merchandise.

Retailers are experimenting with loss prevention methods. The Broadway stores, a $500 million a year department store chain headquartered in Los Angeles, claims to have found the most effective strategy yet.

In 1971, the retailer began outfitting the majority of its security people in red jackets to patrol its 47 stores with other personnel in plainclothes. The idea, of course, is that a would-be shoplifter is unable to be sure whether he or she is under surveillance.

"This high-visibility approach is based on discouraging shoplifters, rather than arresting and then prosecuting them, which is very expensive and time-consuming," says Charles A. Sennewald, director of security. "We have achieved outstanding results in reducing our inventory shortages."

For every shoplifter that is arrested, according to Mr. Sennewald, another 25 or so are deterred. "We are also much less vulnerable to civil lawsuits," he says.

corporations, including the Ford Motor Co., Kraft, Inc., and Republic Steel Corp., are making a major commitment to crime resistance.

Attorney General Bell believes that efforts to control white-collar crime require more concerted action between the private sector and government. "Before any action can become a reality," he says, "closer liaison must be established between the public and the private sectors."

This month's meeting of the National Chamber's advisory panel is one effort toward that liaison. One idea that has been considered is the establishment of a national economic crime center to serve as a clearinghouse for information and to develop educational and training programs.

Says Mr. Murphy of Trailways: "While the merits of such a center have yet to be weighed fully, it would appear to be helpful for small businesses which do not have the resources to battle the problem."

In addition to its advisory panel, the National Chamber has published a handbook, "White-Collar Crime—Everyone's Problem, Everyone's Loss," based on extensive research.

Another organization active in battling white-collar crime is the American Society for Industrial Security, headquartered in Washington, D. C. Its primary goal is to disseminate crime information and upgrade the level of professionalism of its more than 11,000 members here and abroad. Its members include August Bequai, a former trial attorney for the Securities and Exchange Commission, who recently published the first college textbook on white-collar crime.

By the end of this year, the society will have conducted 13 national workshops and conferences on organized and white-collar crime. The society also sponsors introductory and advanced courses on management principles in security.

The Law Enforcement Assistance Administration awarded a grant to the American Management Association to plan realistic ways of controlling white-collar crime. Its recommendations fall into three categories: defensive, deterrent, and demotivating.

Access to some computers is controlled by fingerprint analysis, which reads fingerprint patterns and compares them with those in the computer's memory.

Defensive programs would protect assets by making it more difficult to steal them. Recommendation: Educate and train management in the systems approach to loss prevention.

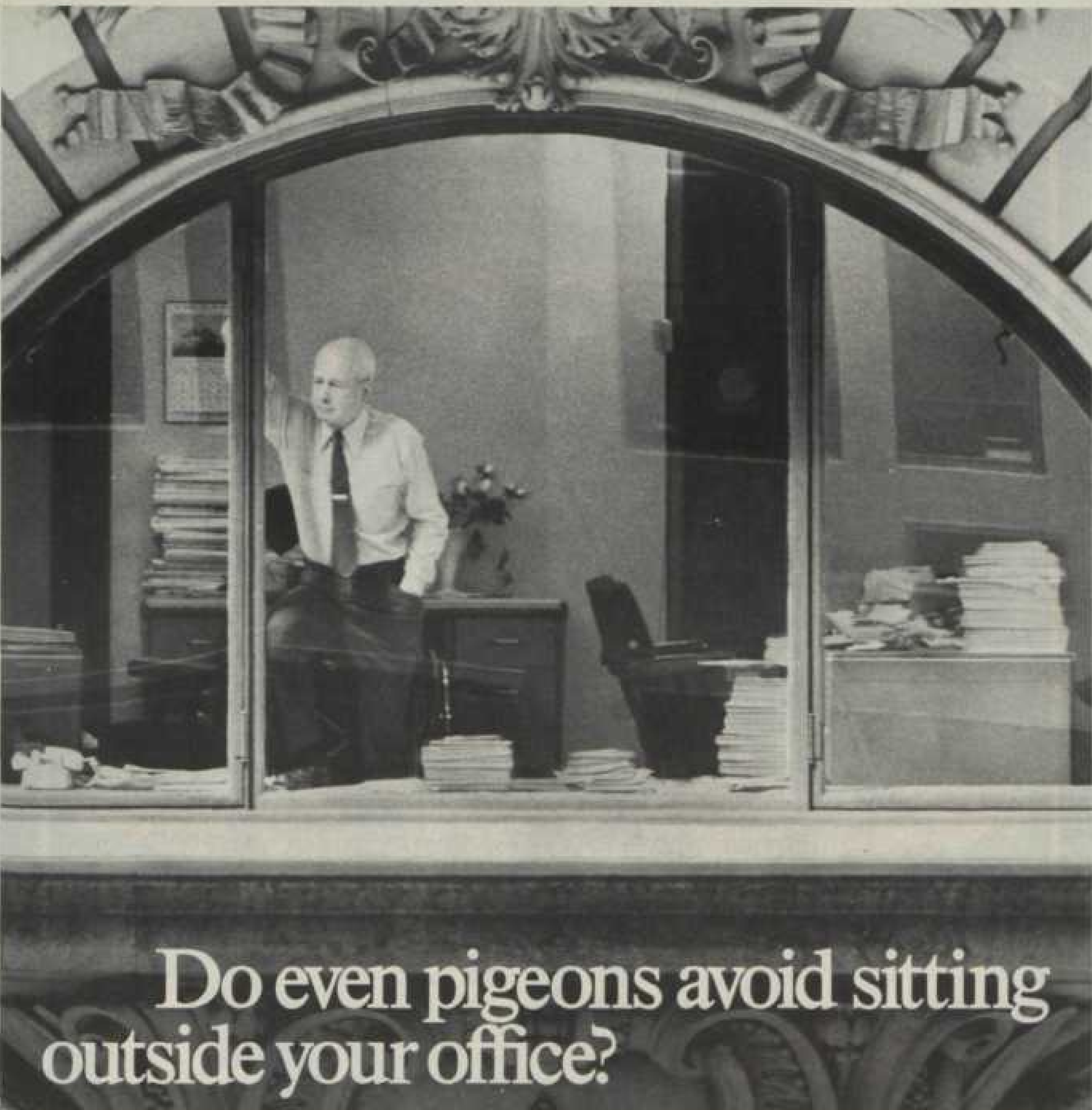
Deterrent programs would make it more costly to steal assets. Recommendation: Accelerate the development of specialized economic crime units within the offices of district attorneys.

Demotivating programs would decrease the motivation to steal company assets. Recommendation: Launch a joint community effort by schools, parent-teacher associations, businesses, civic groups, law enforcement agencies, courts, and the local media to demotivate young people from shoplifting and vandalizing.

"Attitudes toward white-collar crime are changing, but much too slowly," says Dr. Lesher of the National Chamber. "Too many businesses are still willing to accept it as an unavoidable cost of doing business or rationalize their failure to attack industry-wide problems on the grounds that it is law enforcement's job.

"The real question is whether business wants to bear the cost of subsidizing white-collar crime by treating it with kid gloves or invest in a gloves-off strategy which, although not without cost, promises to earn a much higher return over the long run."

Adds Mr. Murphy: "We know the scope of the problem. Let's get started on solving it." □



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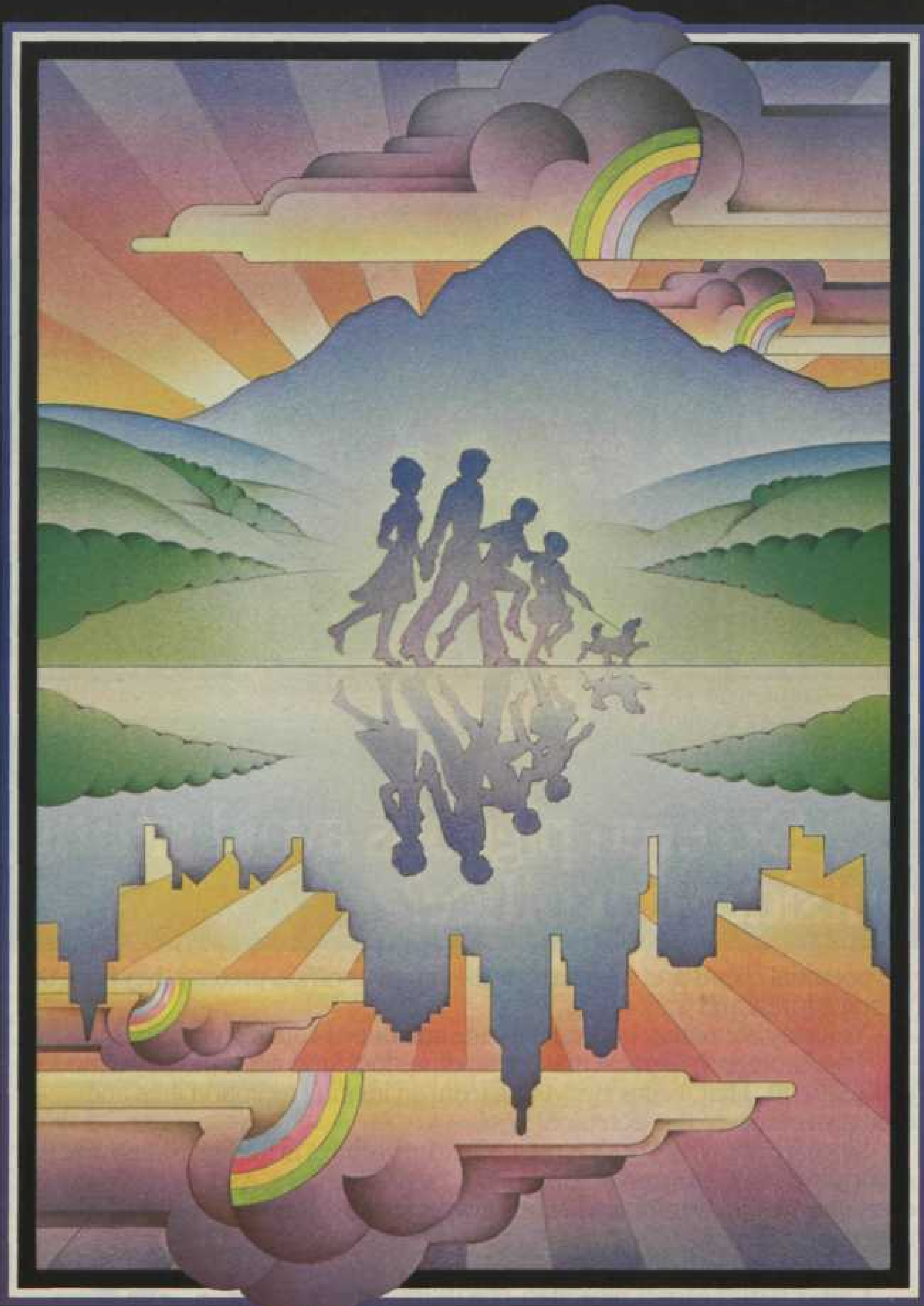

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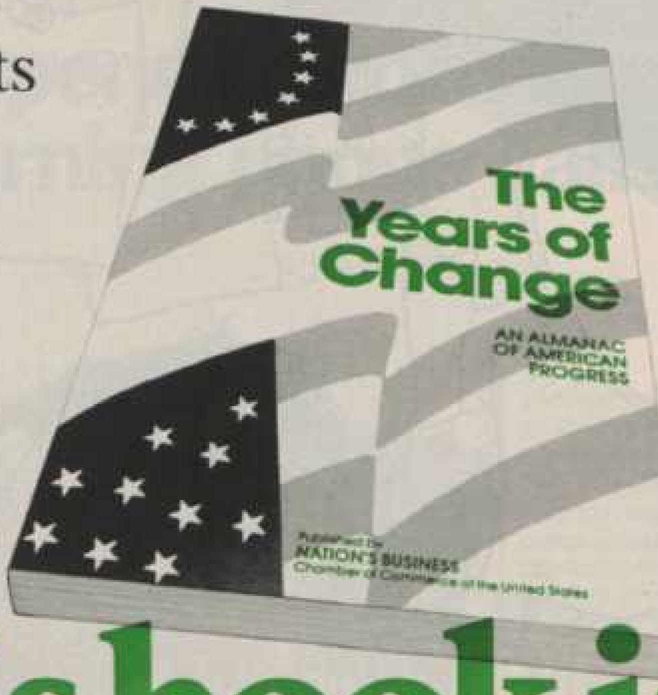

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THE VAST MAJORITY of NATION'S BUSINESS readers believes that Congress should be subject to regulatory laws.

Under existing law, Congress may exempt its own members from regulations that executive branch agencies impose on the private business sector. Claiming to have constitutional and managerial reasons for doing so, Congress has exercised that power again and again. It has excluded its 535 members and 16,500 employees from coverage under such regulatory laws as the Occupational Safety and Health, National Labor Relations, Equal Pay, Fair Labor Standards, Civil Rights, Equal Employment Opportunity, Freedom of Information, and Privacy acts.

But Sen. Patrick J. Leahy (D-Vt.) wants to change all that. He recently introduced legislation that would not only eliminate the exemptions presently enjoyed by Congress but also make members of Congress and their staffs subject to social security taxes.

In the September "Sound Off to the Editor," readers were asked whether they felt Congress should be subject to regulatory laws.

Let Someone Look Over Its Shoulder, Too

Colin D. Monfore, publisher of the Yankton Daily Press and Dakotan, Yankton, S. D., says: "Absolutely yes. Only by being subjected to them will they begin to understand the true impact of the laws they pass."

"What makes Congress so perfect that it doesn't need Big Brother looking over its shoulder?" asks Kit S. Hightower, president of Basic Metals, Inc., Dallas, Texas. He says yes to regulatory laws for Congress.

Many who responded said that if Congress were subjected to the same regulations imposed on business, Congress might be more inclined to think harder about the consequences of its legislation. Vaughn H. Evans, vice president of First Federal Savings and Loan Association of Davenport, Iowa, says: "Perhaps if they are subject to regulatory laws, we will get fewer of them, and the laws we do get will be better."

L. J. Hudspeth, manager of Westinghouse Electric Corp.'s Overhead Distribution Transformer Division, Athens, Ga., agrees. "The only way that Congress can possibly understand what has happened to its well-intentioned legislation after the bureaucracy has re-interpreted, rewritten, or subverted it is for Congress to experience its implementation personally."

Tom Payne, an attorney from Jackson, Miss., adds that, like business, Congress should be subject to strict enforcement of regulatory laws. Such enforcement might even lead to the repeal of some existing laws. Mr. Payne says that Ulysses S. Grant said it best: "I know no method to secure the repeal of bad or obnoxious laws so effective as their stringent execution."

John M. Crouse, a vice president of Whirlpool Corp.'s administrative center, Benton Harbor, Mich., sees possible economic benefit for the country if Congress stopped enacting regulatory legislation.

"It is about time that Congress allows the businessman to function in the most efficient, economical manner possible," says Mr. Crouse. "The continued passage of more and more regulation has contributed to the country's largest single problem: inflation."

Similarly, R. H. "Bob" Lewis, a Washington state senator from Spokane, foresees a better life for Americans as a result of subjecting Congress to regulation. "Perhaps the experience would drive home a message. Too much regulation can be a deterrent to efficiency, enjoyment of work, and freedom of association," he says.

Many readers resent Congress's exemption because they feel the situation is inequitable. Hazel Marlene Crouch, secretary and treasurer, Enelram Corp., Lexington, Ky., says: "This country's foundation is based on 'all men are created equal.' Has Congress added 'except Congress—when it creates an inconvenience'?" Ms. Crouch continues: "If a group of people are allowed to make rules that law-abiding citizens accept and live by, then they too should have to obey them."

Several other readers concurred with Ms. Crouch's opinion. William J. English, a member of the Arizona House of Representatives from Sierra Vista, says that "one of the biggest problems with government today is its unwillingness to abide by the law."

"Congress has made itself the most powerful special interest group in this country," says Rufus H. Brewer, an executive of Dow Chemical U. S. A., Freeport, Texas. "That's not what our Constitution intended."

Manuel Gomes, manager-partner of M. M. Gomes & Son, Morgan Hill, Calif., also feels Congress's existing right of exclusion is inequitable. He warns that "the public is beginning to rebel against this double standard."

Thomas Lauber, president of The First National Bank in Masillon, Ohio, sympathizes with those who feel "a great temptation to truss up the unsteady giant with its own web of rules and regulations. Perhaps it would be fitting retribution.'"

Mr. Lauber suggests, however, that "a better approach would be to elect a Congress that opposes regulatory tyranny because it is wasteful and destructive to initiative, efficiency, and productivity in both the private and the public sectors."

Regulations for Congress would "only serve to increase the bureaucracy 17,000-fold," says P. B. Smith, assistant editor, General Motors Corp., Troy, Mich. "Congress is too transient a body to be thus regulated." In addition, he says, "I have faith that the body which passes laws abides by them."

Roger Pitchford, managing broker, the Realty & Auction Center, Scottsville, Ky., expresses relief that at least one segment of society has escaped the regulatory burden. "I'm glad to hear that someone has a way out of this mess. Let's not make things any worse for anyone than they already are."

Like many other readers, John A. Murphy, president of Mil-Bar Company, Inc., Santa Ana, Calif., is especially concerned with the social security issue. "I see no reason why Congress should be exempt from the laws it makes for the people of this country. Congress should come under the social security tax system like the rest of us."

L. R. Parrish, president of Parrish Cabinet Co., Inc., Temple, Ga., says: "We should all be taxpayers equally. Why should Congress be exempt from social security when we taxpayers must pay for pensions for its members?"

Michael J. Kulick, president of Reserve Roofing & Sheet Metal, Inc., Akron, Ohio, is optimistic about the effects of placing Congress under regulation. "This is a very good first step in government reform," he says.

Mr. Kulick's optimistic viewpoint is not shared by George B. Rhodes, director of terminal operations for Wilson Trucking Corp., Fisherville, Va. He seems resigned to living with what is to him an unresponsive Congress. "I definitely feel that those who spew out regulation on top of regulation should feel the same stifling effect the rest of us feel.

"However, I'm sure the end results would be more federal jobs to enforce the regulations and even less accomplished by Congress."

Richard G. Sheler, executive vice president and general manager of the National Association of Credit Management (Arizona Division), Phoenix, suggests that Congress accept regulation peacefully.

"If we who have to run businesses, remain within budgets, and retain profits while being harassed by regulatory agencies and taxed by every government and municipality imaginable can live with these jokes, surely the joke writers can. It's their product!" □

Managers' Pay Reache

Nine percent increase in salaries and bonuses is comparable to those in other professional fields

By Robert E. Sibson

SALARIES for managers have gone up by about eight percent a year for the past 12 years, and 1978 was no exception. With the nine percent increase this year, however, managers' pay reached an all-time high.

Bonuses, which also reached an all-time high, were up by nine percent. And, with the recent upturn in the stock market, long-term income plans have reached their highest value in ten years.

Do such increases mean that managers are overpaid for the work they do? Not necessarily. Compared with the pay of their subordinates or of others in nonbusiness fields, managers' compensation in most cases is reasonable.

The dollar value of management salaries has increased steadily over the years. The nine percent increase for 1978 is above the median salary increase for management personnel during the 14 years of the Annual Management Compensation Study but consistent with levels of the past five years. This year's increase is also about the same as that of other groups of employees.

Erosion of the dollar

Still, considering inflation and business growth, management salaries are actually about the same today as they were in 1960. In fact, using inflation as a benchmark, many of today's managers may even be underpaid because of the erosion of the dollar over the past 15 years.

Studies show that managers' salaries are comparable to those in government, education, private companies, and professional fields. And in many cases, they are far less than the incomes of many men and women in sports and entertainment.

The small number of executives whose earnings exceed $200,000 a year has left the impression that managers are overpaid. However, fewer than 500 people in fewer than 200 firms earn that kind of money.

Boards of directors are very conscientious in reviewing top management's pay. They are also very sensitive about relating managers' pay to their accomplishments.

A survey made in 1978 revealed that more than one half of the boards of large public corporations conduct an annual, independent review of top executives' compensation.

Salary levels for chief executive officers, shown in Table 2, include only industrial firms which also have bonus plans for managers. These data were compared with figures in the first published Annual Management Compensation Study. For the same size firm, pay for executive positions has increased about 4.5 percent a year over the past 13 years.

Division managers

Salary and bonus payments for group executives and division managers also rose about nine percent in 1978. Table 3 shows separate data for heads of divisions that have their own marketing, manufacturing, and product development operations and group executives who have such division managers reporting to them.

Pay for division heads and group executives with less scope is clearly lower. The head of a complete business subsidiary company gets paid about ten to 20 percent less than the chief executive officer of a separate corporation of comparable size.

Salary levels of key corporate department heads are shown in Table 4. These reflect market data derived from compensation surveys.

Companies should and do use important other sources of information in setting actual salaries. Among these are conscious policy decisions about how to position the pay of various kinds of jobs relative to appropriate defined markets for these jobs and the use of pay progress data. Defining the contribution the individual is making to the job is becoming easier as a result of new appraisal techniques emerging from new management development approaches.

In most companies, a substantial part of a manager's pay comes from bonus payments and long-term income, both of which are usually based upon business results.

It is no accident that higher bonuses for managers coincide with periods of outstanding business performance. Company bonus plans are designed to pay managers well when business is good, to pay them moderately when business results are as expected, and to dispense with bonuses altogether when business hits a slump.

There are, however, a number of distinctly different approaches that companies use to achieve these results. Incentive bonus plans have grown significantly in relative importance over the past ten years, while the newest approach simulates the compensation

Table #1

Management Salary Increases

Year	Average increase in salary for total group	Median increase for those receiving increases
1965	6%	12%
1966	6	11
1967	7	12
1968	7	12
1969	7	12
1970	9	14
1971	7	13
1972	7	13
1973	7	12
1974	8	10
1975	10	11
1976	9	11
1977	9	12
1978	9	12

Note: Management includes chief executive officers, chief operating officers, top functional vice presidents, and top group and division executives.

All-Time High But ...

patterns typical of entrepreneurs and owners of businesses.

Bonus payments for 1978 performance will be about ten to 15 percent higher than those in 1977. But the profits of companies paying bonuses will be about 15 percent higher this year.

Company practice

Bonuses paid for 1978 will be about 50 percent higher than the average paid by the same companies five years ago. And 1978 bonus payments will be more than double the amounts that were paid to managers in comparable positions from 1970 to 1973.

The data in Table 4 show average bonuses paid at different salary levels. The figures should not be used as standards or guides for bonus plans, because such standards should be based on company practice in years of both high and low profits. Nor should they be used to test the reasonableness of bonus payments in a given company unless there are also standards for comparing business results.

Options are the traditional method of paying long-term income and, therefore, are acceptable to stockholders. Moreover, accrued values under option plans are directly related to the increased value of stock.

When business is on the upswing and the stock market is buoyant, the average annual values accrued under long-term income plans can reach the same level as bonuses.

The high, accrued long-term income in 1978 resulted, in part, from the many outstanding shares that were granted under option plans in 1973 and 1974, when the stock market was depressed.

Many of these options remain unvested, preventing executives from exercising them. If the stock market takes another plunge, many of the options may turn out to be of less value, and some may end up of no value at all.

It is important to view long-term income gains in the proper perspective. For many companies, the past few years have been the only period since about 1969 when option values were significant.

Table #2

Salaries and Bonuses of Chief Executive Officers

Sales (in $ millions)	Salary	Pay (in $ thousands)[1] Bonus	Total
Small Company			
From $2 to $5	$ 52	$ 17	$ 69
From $5 to $12	62	22	84
From $12 to $25	75	29	104
Intermediate Company			
From $25 to $50	$ 88	$ 33	$121
From $50 to $100	108	43	151
From $100 to $150	122	52	174
Large Company			
From $150 to $250	$146	$ 67	$213
From $250 to $400	170	82	252
From $400 to $600	190	93	283
Very Large Company			
From $600 to $750	$206	$105	$311
From $750 to $1,000	224	119	343
From $1,000 to $3,000	254	140	394

[1]Updated to reflect levels as of January, 1979.

Options granted by most companies after 1969 were of little value. Some of them expired without ever accruing any value to the manager involved.

About 80 percent of all publicly traded firms have some type of long-term income plan. About 80 percent of these companies still use options.

For some firms, particularly large, mature ones, it is becoming increasingly difficult to reward managers through options. One reason is that the stock market has behaved so erratically, especially during the past six or seven years. Also, it is difficult for large, mature companies to increase their earnings substantially over five or even ten years.

Potential cash problem

A further difficulty with nonqualified stock options is the potential cash problem of corporate insiders upon the exercise of these options. Such insiders cannot sell option stock to provide for required tax payments until six months after exercise. New SEC regulations have made the stock appreciation rights feature of option plans a practical tool for solving the insider trading problem. However, unusually rigid accounting procedures governing cost accruals for these programs may offset this advantage.

Three other types of plans, based on long-term business results, have evolved to provide long-term income rewards for key managers. These are executive stock-ownership plans, long-term bonus plans, and plans which, in effect, give stock to executives.

Each one has advantages and drawbacks. Purchase plans are desirable because they enable managers to own substantial amounts of stock. Most of the accrued values under this plan result from the appreciated value of stock over a long period of time, without adversely affecting the balance sheet.

Long-term bonus plans, in contrast, relate long-term awards to long-term profits. However, the disadvantages are twofold. It is difficult to forecast

Table #3

Compensation of Group Executives and Division Managers

Size of division or group (sales in $ millions)		Business unit: Group executive	Business unit: Division manager
$ 12.5	Salary	$ 55	$ 45
	Bonus	12	12
	Total	$ 67	$ 57
25	Salary	$ 66	$ 56
	Bonus	13	14
	Total	$ 79	$ 70
50	Salary	$ 74	$ 67
	Bonus	20	20
	Total	$ 94	$ 87
100	Salary	$ 87	$ 79
	Bonus	25	25
	Total	$112	$104
400	Salary	$113	$100
	Bonus	44	38
	Total	$157	$138

Note: Business units are defined as complete businesses which have their own manufacturing, product development, and marketing operations. A group executive has responsibility for two or more business unit divisions.

long-term earnings accurately. Also, managers could receive very large bonuses for long-term results at a time when stock values are down.

Stock-grant plans, particularly the restricted stock plan, have received considerable attention this year. The critical considerations here are how many shares should be granted and what conditions, if any, should be attached to the grant.

Some firms have given executives the same number of shares as they had options. This raises the possibility of excessive compensation. Restricted stock plans should involve far fewer shares than option grants.

Most restricted stock plans require only that executives stay with the company for a minimum time. Some plans, however, require that certain business requirements be fulfilled before a manager can receive unrestricted stock.

Increasing attention is also being given to benefit plans that offer managers supplemental insurance and retirement values. The packages developed for this purpose by insurance companies, however, frequently provide unnecessary benefits and costs.

Why is so much attention being given to managers' pay? It is largely because the Carter administration has asked corporations to restrict pay increases to senior management to five percent.

Every firm which responded to a recent survey indicated it would try to comply with Mr. Carter's request. The firms also expressed a concern for the consequences—jawboning, for example—if they did not go along.

President's request

Conforming to the administration's suggested guideline, however, will pose problems. For instance, when the President issued his request, many companies had already granted increases exceeding five percent for 1978.

Not all companies grant salary increases every year. Some have gone for two years or more without any raises. These firms will be able to place a five percent restraint on salaries only for the past year.

Many companies have slowed down salary increases for their top people. Instead, these managers are given bonuses that are tied to favorable busi-

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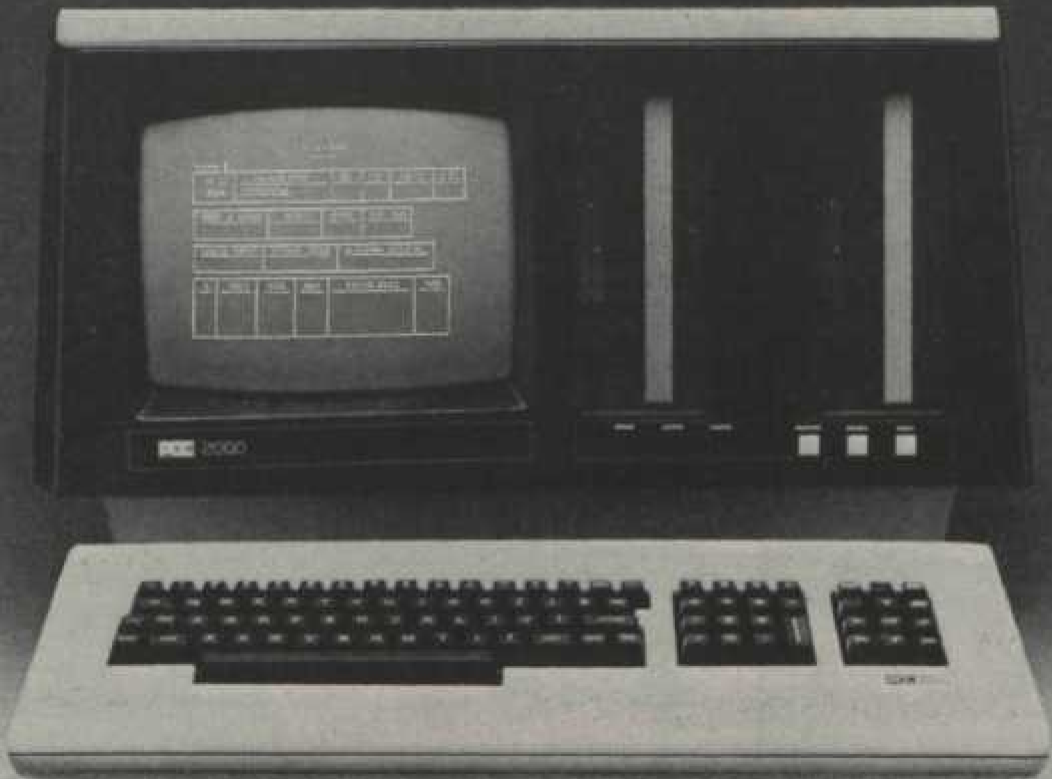

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Table #4

Salaries of Functional Management Positions (in $ thousands)

Size of company (sales in $ millions)	Manufacturing	Corporate position Marketing	Finance	Personnel
$ 25	$45	$42	$ 45	$31
50	48	49	55	36
100	53	57	62	42
200	60	66	71	48
400	67	74	86	55
750	78	83	95	62
1,500	87	96	112	73

ness results. This, too, poses a dilemma.

How can a firm restrain salaries and still stay competitive if bonuses peak or start to decline because business takes a downward turn?

The President's guideline seems to apply only to payments that are made to managers, not to payments earned by managers. This suggests that anything exceeding the five percent figure is acceptable if it is deferred until the wage ceiling is removed.

It also appears that long-term income plans such as stock options are to be excluded from the five percent guideline.

New reporting requirements

Another factor that has focused public attention on managers' pay is the new federal reporting requirements. Companies have always been required to report significant compensation paid to managers, but this generally covered only salary or bonus payments.

Beginning in 1978, however, the Securities and Exchange Commission advised corporations they would be required to report all benefits and perquisites of any value, following detailed SEC guidelines. These new reporting requirements will be an added administrative chore, of course, but few companies will have difficulties in complying.

A survey of 200 leading companies revealed that despite the new SEC rules, 50 percent of these companies did not include this information in their 1978 proxy statements. Of those that did, the majority simply described the perquisites and did not value them.

A long list of business-related expenses is also under scrutiny. For example, the government is considering eliminating all lunch and dinner expenses, regardless of how much business is conducted during the course of these meals.

The actual luncheon expenses of managers, in terms of their total cost to the company, is less than one tenth of one percent in most cases. And the cost never exceeds more than one half of one percent. Therefore, the public furor over the business person's lunch seems all out of proportion. At best, the whole issue appears to be more political than economic.

MR. SIBSON *is chairman of the board of Sibson & Co., Inc., human resources management consultants. His article, published exclusively in* NATION'S BUSINESS, *is based on his company's 14th Annual Management Compensation Study.*

To order reprints of this article, see page 58.

Table #5

Bonus Levels for Line and Staff Executives (in $ thousands)

Salary	Bonus Management	Other
$ 30	$ 7	$ 4
40	10	6
50	13	10
60	17	14
70	22	19
80	26	25
90	34	33
100	38	38
150	60	59

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Viewpoint

The Dangers of Deregulating the Trucking Industry

By William T. Cassels, Jr.

Chatting with one of his drivers is William T. Cassels, Jr., president of Southeastern Freight Lines of Columbia, S. C. He is chairman of the American Trucking Associations.

THE CURRENT AGITATION over reform of federal regulatory activities is failing to distinguish between proven economic regulation and social regulation. This failure may lead to the end of economic regulation of the trucking industry or such severe changes that regulation would become meaningless.

An essential element of a free, dynamic economy is a freight movement system that will ensure dependable service to shippers and receivers at reasonable rates without discrimination or prejudice.

Unless this movement is assured, shippers in established or newly developing industries cannot adequately plan their transportation and distribution requirements.

Reliance by shippers

Only a small fraction of the nation's total shipping community is able to provide its own transport services—and self-provided services cover only part of total transport needs. Most shippers in all sectors must rely on for-hire transportation—particularly those carriers subject to federal regulation.

The nation's interstate motor carrier industry is regulated today because of legislation wisely enacted by Congress in 1935. Its purpose was to bring stability and safety into a nascent motor carrier industry. In 1953, the Supreme Court summed up the situation in the motor carrier industry prior to federal regulation as:

"Unstable economically, dominated by ease of competitive entry and a fluid rate picture ... as a result, it (the industry) became overcrowded with small economic units which proved unable to satisfy the most minimal standards of safety or financial responsibility."

Federal regulation of transportation has accomplished its original goal and much more. The motor carrier industry provides not only safe and dependable transportation but also the best transport system of any country in the world.

Still, forces within the Carter administration and Congress are proposing virtual elimination of federal regulation of motor transport. Opponents to the present regulatory scheme are capitalizing on the public's newly inflamed distrust of bureaucracy and big government.

Equitable treatment

Therefore, it is vital to distinguish between valid, necessary, and proven economic regulation of motor transport by the Interstate Commerce Commission and less desirable or unproven regulation in other areas.

Deregulation of motor transport would create havoc in the present transportation network, to the detriment of the American public. Present regulations delineate the kind of service each carrier must provide and often the rates each may charge. All shippers and cities, regardless of size, receive equitable treatment.

Various foes of regulation want to end regulatory control of rates. Oppo-


Defy mediocrity.
Seagram's
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The ingenious ways a Mercedes-Benz captures the wind– and uses it to improve visibility and comfort

For the engineers of Mercedes-Benz, shaping an aerodynamically "clean" car body is only a first basic step.

Their years of wind tunnel experience and the study of automotive aerodynamics have led them to an ingenious second step: harnessing the airflow that swirls constantly over and around a moving car and putting it to efficient use – outside and inside.

Window-cleaning wind

For instance, it wasn't enough for the engineers to give the driver as much side and rear glass as possible, for optimum visibility. They also wanted to keep that glass as clear as possible, come rain or slush or grime. And they went into the wind tunnel in search of ways.

One way can be seen in the unique moldings that frame the windshield, side and rear windows. They actually form an aerodynamically sophisticated *ducting* system, carefully angled and channeled to help divert the airstream away from the side and rear window glass – whisking rain, slush and grime elsewhere.

A fence with a difference

Even the rub rail – that horizontal steel and rubber strip on either body side – is meant to play its part in keeping those side windows clean.

Wind tunnel tests showed that, if skillfully shaped and placed, it could also serve as a *flow fence*: routing the airflow pattern along the body sides to deflect slush and mud flung up by the front wheels so it can't splatter the side glass.

The engineers used wind-tunnel expertise to control the airflow swirling around the outside rearview mirror. The mirror's windward face is shaped to create an airflow that helps keep the glass free of rain and road film.

Taillights use the wind

Aerodynamic research helped Mercedes-Benz engineers harness the power of the wind to help "scrub" the car's taillights free of slush and mud, keeping them visible longer in foul weather.

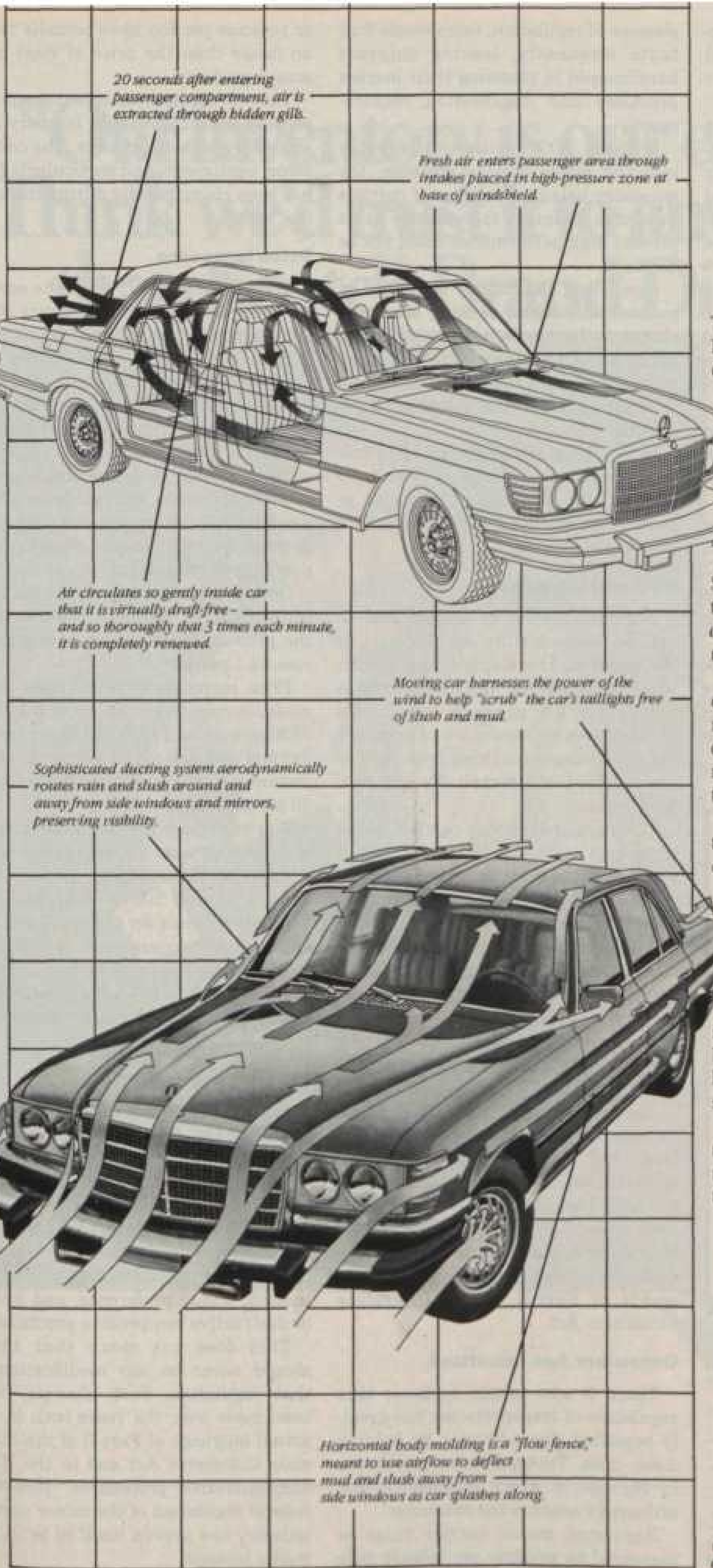
With the outer surface of the rear lights deeply ribbed, the recessed vertical areas remain free of deposits since they are not affected by the circulating motion of the vortex.

A simple idea, spawned only after many long hours of testing in the wind tunnel.

Cleaner windshield – cooler brakes

Aerodynamic principles help keep the windshield wipers pressed fast against the glass as they work. Objective: to prevent high-speed turbulence from suddenly lifting the blades.

The wheels on a Mercedes-Benz are intended less to catch your eye than to capture the wind. Multiple slots in each wheel scoop a steady stream of cooling air to the brakes within.



Airflow you can feel – inside

The ventilation system of a Mercedes-Benz uses aerodynamics in the cause of human comfort. Its air supply is gathered via intakes placed in a high-pressure zone at the base of the windshield, then ducted into the passenger area.

So carefully is the airflow through the cabin regulated that, although constantly in motion, it is virtually draft-free. So efficiently is the airflow processed that the cabin's fresh air supply is *completely renewed* three times a minute.

Starting from numerous forward outlets, the air in its 20-second journey circulates around the cabin until drawn into a low-pressure area at the rear – then is silently extracted through hidden gills.

The bi-level climate control system used in most Mercedes-Benz cars can create a wide range of man-made climates, aided by a radial blower capable of generating eight different levels of airflow – even when the car is standing perfectly still.

Capturing the wind in these ways is an exacting science. But Mercedes-Benz thinks the resulting subtle gains help make useful contributions to safety and comfort.

And in the search for more efficient automobiles, no step forward can be too small.

nents propose that almost any operator who wishes be allowed to haul freight—without showing any public need for his service.

The effect of such deregulation would be to plunge the trucking industry into chaotic rate wars, drastically reducing the number of firms engaged in the business. Only the very large companies with sufficient resources would come out alive.

Danger from giants

These giants would then be able to develop unwritten nonaggression pacts similar to those that now exist between competitors in other key industries which, after similar Darwinian battles of attrition, have been free to enjoy the peaceful pursuit of profits on their own terms.

Deregulating the trucking industry would restore conditions that existed prior to 1935. In addition, the economic impact would be greater because of the increased importance of trucking today.

In the absence of regulation, shippers would never know if the rate they were paying was fair and not based on preference or discrimination. In the absence of regulation, rates would fluctuate frequently, leaving shippers handicapped in planning their market practices and distribution requirements.

Without ICC monitoring of entry into the motor carrier business, the necessary balanced number of carriers needed to maintain the industry at its present high performance could not be achieved.

Operating authority should be granted only when existing service is shown to be inadequate or when an applicant can offer a new or improved service. The ICC grants new authority for existing carriers or routes quite frequently.

In 1977, the ICC reported 7,815 motor carrier applications, of which 90 percent were granted in whole or in part. Most of these were awarded to specialized carriers.

Still small business

Regulation ensures service and financial responsibility on the part of the carriers. The shipper knows with whom he is dealing and to whom he is entrusting his product. He knows there is greater assurance of recovery for any damages resulting from service not provided in a reasonable and prudent manner.

The regulated motor carrier industry in this country is the largest in the world in number of shipments carried or revenue earned. However, it remains essentially small business. There are more than 16,000 individual companies, representing carriers of all types, moving all types of commodities. Because of regulation, this large and diverse group has been welded into a national motor carrier transportation system.

The ability to establish just and reasonable rates, with shipper participation, and to undertake equipment interchange arrangements and pooling of traffic has given the nation a cohesive system of motor transport. No shipper or community is without adequate service—assured by the requirements of Part II of the Interstate Commerce Act.

Consumer has benefited

There is also ample evidence that regulation of transportation has greatly benefited the consumer by holding down costs. Transportation is a factor in the cost of every commodity that ultimately reaches the consumer.

Regulated motor carrier rates as measured by revenue per vehicle mile or revenue per ton have actually risen no faster than the price of most consumer products.

This is a remarkable achievement because the motor carrier industry has extremely high direct costs. The cost of labor, equipment, and particularly fuel has been rising rapidly during the past few years.

Price increases

From 1972 to 1977, when the economy faced its greatest inflationary pressures, the price of motor carrier service as reflected in revenue per ton and revenue per vehicle mile rose 48.1 percent and 36.8 percent, respectively, for all for-hire motor carriers subject to federal regulation.

For the regulated common carriers of general freight, the figures are 50.4 percent in revenue per ton and 37.8 percent in revenue per vehicle mile during those five years.

During the same period, the price of farm products rose 54.3 percent, and the price of processed foods and feeds rose 54.1 percent.

Price increases in other basic commodities rose in the range of a low of 35.9 percent to a high of 154.8 percent for fuel and related products. In most instances, the price increase was in the 50 percent range.

The relative price for motor carrier service can also be compared with changes in the consumer price index. From a base of 100 in 1967, the revenue per ton-mile for the regulated for-hire motor carriers rose to 166.2 in 1977. During the same period, the CPI rose from 100 to 181.5, 15 points higher than the price of motor carrier service.

Free of discrimination

Federal regulation of interstate motor transport has resulted in significant public benefits.

The regulations have served to maintain a safe and efficient transportation service to all communities and to all shippers under a stable and economical rate structure, free of discrimination, undue preference, and unfair or destructive competitive practices.

This does not mean that there should never be any modification of that regulation. Such changes have been made over the years both in the actual language of Part II of the Interstate Commerce Act and in the ICC's administrative procedures. However, federal regulation of the motor carrier industry has proven itself to be in the public interest. □

LESSONS OF LEADERSHIP

Here Comes the King –of the Beer Business

By Wilbur Martin

August A. Busch, III has programmed the nation's biggest brewery into a well-managed conglomerate

THERE IS a delightful story about the origin of Budweiser beer.

The tale has Adolphus Busch and a friend, Carl Conrad, traveling in Bohemia in the 1870's. They stopped for the night at a small monastery and quaffed the beer brewed by their hosts.

On the spot, Adolphus made a deal with the monks for their recipe, a strain of yeast, and the right to brew the beer at the E. Anheuser Co.'s Brewing Association in St. Louis, Mo.

Adolphus nursed the yeast home in an ice-cream freezer.

There's not a word of truth to this story, but it has been told so often that it has acquired the patina of legend.

What really happened was the implementation of a business philosophy that still dominates at today's Anheuser-Busch, Inc., a $2.5 billion giant that is run by August A. Busch, III, a fourth-generation member of the famed brewmaster family.

The philosophy demanded that only the best, natural ingredients would be

used in the brewing process, including a generous portion of expensive European hops, and high-priced brewer's rice instead of corn.

"We have not changed one iota in the use of natural ingredients in all of our beers," says Mr. Busch, "and we never will."

At 41, Mr. Busch is chairman, president, and chief executive officer of Anheuser-Busch, whose vast, ornate South St. Louis brewery was his playground as a child.

The nation's biggest brewery functions with computer-like efficiency, programmed by the science of business management which Mr. Busch preaches with born-again fervor.

"The use of modern management science is the only way a big company can operate, grow, or even survive," he says.

Anheuser-Busch evolved from the brewery a man named Schneider started in 1852 near a series of big, old caves not far from the Mississippi River. The caves were ideal for cooling the beer, and sawdust-covered chunks of ice cut from the river in winter melted slowly over the summer.

Schneider failed, as did the brewery that followed him. In 1857, Eberhard Anheuser, a prosperous soap manufacturer, took over the Bavarian Brewery as its largest creditor.

The brewery was producing about 8,000 barrels a year, and for eight years Eberhard ran it and his other businesses. Then, he decided the brewery needed new blood. He installed his son-in-law, Adolphus Busch, a top brewery supply salesman who knew beer from his youth in Germany.

Adolphus was a genius not only as a brewer but also as a marketing man. From a few thousand barrels of beer a year, the company's sales exploded. Adolphus built trackside icehouses for beer-carrying railroad cars and expanded into Texas and Louisiana. The cowboys practically disowned that old saloon standby, red-eye whiskey, in favor of brew.

It was Adolphus who introduced pasteurization of beer, ending the need to keep the product cold in shipping, and Anheuser-Busch began bottling, which revolutionized the marketing of beer and opened up the whole country to a national product.

Anheuser-Busch had as many as 16 different beers when the first glass of Budweiser was drawn in 1876. Prohibition shut the taps in 1920, but by then Budweiser was a national name. As the song goes: "When you say Budweiser, you've said it all." Today, the company has other best-sellers like Michelob, Busch, Natural Light, Michelob Light, and Classic Dark beers.

The bottling stage is the end of the line before the beer—millions and millions of bottles as well as millions and millions of cans—is shipped. With Mr. Busch is John Letter, director of plant operations.

A new product now being tested is Chelsea, which has an alcohol content so low it is classed as a soft drink.

"We're exploring other areas," says Mr. Busch. "We don't intend to sit still."

One reason for not sitting still is the constant challenge to Anheuser-Busch's premier sales position.

"When you're No. 1, someone is always challenging you," says Mr. Busch. Those challengers include Carling in the 1950's, Schlitz in the 1960's, and, more recently, Miller's in a new marketing arena: light beers.

Crisp in manner, direct in speech, August Busch has decided views on what it takes to make a company successful. Foremost is the product.

"Marketing can carry things for a time, but in the long run, it is the product itself that stands the test," he says.

Marketing includes advertising. The beer industry spends hundreds of millions of dollars each year promoting scores of brands. Some of Anheuser-Busch's promotions and advertisements have become part of American folklore. One example is the famous Clydesdale horses, which still draw the old-fashioned beer delivery wagon around in parades, fairs, and presidential inaugurations.

Another classic promotion is the painting of "Custer's Last Fight," a huge picture depicting the Battle of the Little Big Horn between Sitting Bull's braves and Gen. George Armstrong Custer's cavalry. More than a million prints were distributed, and when the company celebrated its 100th anniversary in 1952, it was still getting requests.

Last year Anheuser-Busch turned out 36,640,157 barrels of beer in ten breweries across the country. But the company is more than just a brewer. It

Virginia Gov. John Dalton joins Mr. Busch and athletic celebrities at the opening of the company's theme park at Williamsburg, Va. From left are race car driver Janet Guthrie, football stars Conrad Dobler and Joe Greene, and stuntwoman Kitty O'Neil. Below, the company chairman takes a ride on the giant roller coaster.

operates theme parks at Tampa, Fla., and Williamsburg, Va.; produces baker's yeast and 11 other products; owns real estate developments near Williamsburg and Columbus, Ohio; runs a transportation division consisting of the St. Louis Refrigerator Car Co., Manufacturers Railway Co., and other cartage companies; has can manufacturing facilities and malt plants; and supports the St. Louis Cardinals of the National League, which was purchased as a civic gesture to keep the baseball team from leaving St. Louis.

Mr. Busch believes his chief responsibility as a chief executive is to put together the best management team possible and to serve as the catalyst for planning.

This year, Mr. Busch is also serving as chairman of the United States Brewers Association, Inc. He spends a good deal of his time in Washington, "perhaps as much as 40 percent," he admits ruefully. "You have to do this today, because so much of what impacts on business is related to government."

In an interview with an editor of NATION'S BUSINESS, Mr. Busch talks about his company, his industry, and some problems facing business.

You've been quoted as saying, "thank God for competition." Anheuser-Busch is the industry's No. 1 competitive target, so why do you feel this way?

Well, just look at some of the countries where competition has been forgotten. You can see the decay of the entire business system and the people within it.

The executives go stale. The whole system goes stale. Profit, free enterprise, and competition are what make the system run. Without them, there is no incentive for a guy to get up in the morning and move, and push, and be creative, and take chances. None whatsoever.

There is always competition to be No. 1, and there should always be competition. That's what makes Ford run against General Motors, Heinz against Campbell, and any corporation run to remain the leader.

You give consumers a better product, and inform them about that product through competitive advertising. It's our economic system, and thank God for it.

Why the sudden interest in the competitiveness between your company and the Miller Brewing Co. right now?

I think it's a media contest. You had the same thing in the 1950's when Carling was trying to push us out of No. 1. The company had a lot of money from Rothman Tobacco Co. and some very astute executives. But they didn't do it.

Schlitz pushed us hard in the 1960's. Now the Miller group is pushing. Philip Morris has a lot of money, a lot of cigarette dollars, and a lot of good executives.

Marketing of a product can go just so far. In the final sense, the product itself determines where you are and where you are going over the years.

Right now, the center of attention is light beer, which has been around for years but never made much impression. Why?

Marketing. Meister Brau Lite was sold in Chicago for years. Philip Morris, the parent company of Miller, bought it and they developed a he-man marketing package.

The American beer consumer wanted a beer with lighter taste, lower alcohol content, fewer calories, but he didn't want to look funny drinking it. And that was the advertising message. The big he-man can drink light beer, too.

It has about ten percent of the total beer market.

What is next beyond light beer?

We are now test-marketing a new adult beverage, Chelsea. It isn't an alcoholic drink, nor is it a soft drink. It has a little alcohol, but the percentage is so low that it isn't classified as an alcoholic beverage.

Are there other potential new products? What about a super premium beer beyond Michelob?

There might be. It is no secret that we are taking a look at a real import. I emphasize the word real. We have no intention of bringing in somebody's name, making the beer differently in this country, and selling it as an import. We have every intention of bringing in a real, imported beer.

You have indicated that your product is the primary reason that Anheuser-Busch has been No. 1 in the brewing industry for so long.

That's right. The base line is the taste and drinkability of our products. We haven't changed the ingredients. There is nothing that is not a natural ingredient in our products. There are no additives and no shortcuts in the production of our products. Sooner or later, the beer-drinking customer recognizes this.

As chairman of the brewers association, you have said the industry must speak out. On what issues?

The litter argument is one, and another is mandatory deposit legislation, which would prohibit the sale of beer and soft-drink products in nonreturnable containers.

Removing all of the beer and soft-drink products in nonreturnable containers from the market will not stop litter. These products make up only a fraction of the litter tossed along the roadside. What about old newspapers, food containers, cigarette and candy wrappers, you name it?

You can't attack the tip of the iceberg. You have to attack the base. We in the industry have tried to look at litter in a broader sense as a solid-waste management problem.

You have to attack the problem through education and law enforcement. California has come up with a first-class legislative approach to the

The process of brewing Anheuser-Busch's beers begins in giant vats at the company's ornate, original main brewery in St. Louis and at ten other plants in the U. S. Only natural ingredients, including European hops (above), are used to make the company's products.

problem. This includes education, law enforcement, cleanup, and research on recycling centers.

You have to be progressive and innovative in attacking a social problem in total, not just attack a little piece of the problem with the kind of cosmetic solutions being offered today at all levels of government.

One of the major concerns of your industry is alcoholism, isn't it?

Yes. And what we can do about it. By definition, beer is an alcoholic beverage of moderation. You have to consume an awful lot of beer to get enough units of alcohol to be drunk.

Some studies indicate that the types of stress suffered by alcoholics are related to their personalities. Preliminary results from these studies suggest a new treatment that is directed at changing the alcoholic's environment rather than the alcoholic.

The brewers association and Anheuser-Busch will continue to pursue other practical approaches to the problem of alcoholism. We as a company also plan to sponsor advertising aimed at the person who abuses our products.

Is it true that your workers get free beer?

They sure do. They have the right to consume beer on the job. It's a right, however, that has to be carefully monitored—and is—by the employees themselves to avoid abuse.

What other problems does your industry face?

One that still bothers us is the old practice of questionable payments to retailers. Those practices have been 99.9 percent stopped in this industry, as they should have been. But a single case still creates waves when it comes out.

Your company has about 1,000 wholesaler distributorships which are really small businesses. How would you describe your relationship with them?

A relationship of communications, really. What we strive to achieve is a partnership with objective communication. If we make a mistake, we admit it and tell the wholesalers why it happened. We also tell them that we want their input. And we use that input; it's not just lip service.

What we want is a relationship of mutual respect and confidence. I think you get this by being forthright.

You went to the University of Arizona for two years, then switched to Siebel Institute of Technology, the brewmaster's school in Chicago. Was there ever any time you didn't plan to join the company?

Well, I went to the University of Arizona because I didn't have the grades to get into the eastern schools. And I'm glad I did. The quality of education was very good.

But no, there was never any time I did not plan to come into the company. Before I ever went to college, I spent summers working here. I started in the malt house and went right through to the bottling and canning line, doing every job. I joined the union, too.

You were a card-carrying union member?

Sure. I have a withdrawal card from the union, too.

You have some union negotiations coming up, and there is concern that union wage demands are going to have a heavy inflationary impact on the economy.

The key to a noninflationary wage increase is productivity, and that happens to work across the total economic system of this country.

You have to compare our productivity with that of workers in Japan or West Germany. We have to match the productivity of our global competitors, or we can't match them in prices or sales.

We pay the highest wages of any industry to our production workers, with perhaps the exception of lithographers. And we're happy to do it. But we can do it only if we make a profit and increase productivity.

I think our employees understand this, because we've made sure we communicate with them. When we started our internal communications program about four years ago, I went to every one of our facilities, to every shift, and met with employees. We talked about productivity, marketing, pricing, and competition. We talked about debt-to-equity ratio, where we get our money, and how we spend it. This program has expanded. Instead of just me doing it, there is now a team of executives visiting each plant each year. We include the wives of employees, too.

When you talk about increasing productivity, where will the increase come from?

One place is building new production facilities. The new system gets more product per unit of manpower. Or you modernize an old system.

A good example is here in St. Louis. We had a fermenting operation which took more than 100 people to operate. Now we run it with six people because it is completely automated.

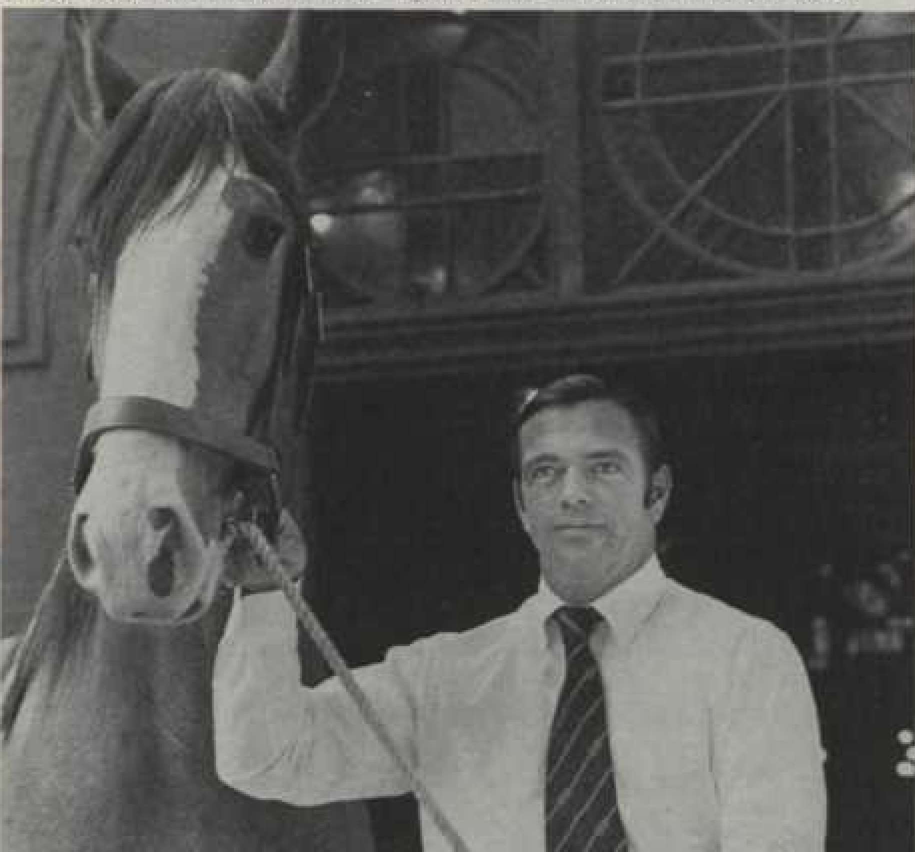
The new system cost a lot of capital. But if we hadn't done it, the plant and the operation would have deteriorated. Sooner or later, we would have had to close it. So, you either keep up technologically and stay productive, or you find that you simply cannot compete.

Are you building more breweries?

We're building a new one in Williamsburg, Va., right now. We're modernizing and expanding in St. Louis, Tampa, and Houston. We are planning a big, new complex in California, too.

Much has been written about you and your emphasis on business management techniques in running your company. Would you comment?

"The use of modern business management science is the only way a big company can operate, grow, or even survive," says the chief executive of Anheuser-Busch.



The huge Clydesdales, which once pulled beer wagons, are part of American folklore. They still work as a company promotion at fairs, parades, and other public events.

Twenty years ago, there weren't many companies that operated with management control systems because the technology just wasn't available. That technology and expertise came after World War II.

Today, management science application is the rule, not the exception. We simply implemented the system as it became available. In my opinion, business can't live without operating this way.

Many executives say that because of economic circumstances, long-range planning today is three to five years for any company.

We operate on a five-year plan. That's our horizon. It's constantly updated, however. The input is monthly, with a budget review every two weeks, which shows current operations compared to annual budget and planning projections.

So, every two weeks, this company is looking at where it is supposed to go and whether it is on track. If something is not right, we correct it.

This kind of planning system has flexibility and sensitivity.

With the decline in the number of regional breweries, how do you see the future of your industry?

Good. The industry is growing about three percent a year. There are many regional brewers who are doing very well. The innovative regional brewer is doing damned well. There is always room in this industry for good, innovative marketers.

What about the future for other aspects of your company?

We have more than a 45 percent share of the market for baker's yeast. We have two very successful theme parks in Florida and at Williamsburg. We are expanding these, and we are considering more.

Someone said that you always take your job with you.

That's not correct. But my job is my hobby, my hobby is my job. I happen to like it an awful lot, and I thrive on it. I love competition.

I also have a great wife and great children. I spend time with them. I don't play tennis very well, but I play at it. I swim almost every day. I shoot trap and skeet, and I hunt when I can. There is plenty of relaxation other than business.

You fly a helicopter?

And fixed-wing planes, too. I fly with my wife, who recently became a pilot, and with my children. My son is taking flying lessons.

Does your son want to come into the business?

I'm not sure he knows today where he wants to go. The only thing I tell him is to try to go to bed at night feeling that he has accomplished something, no matter what it was—reading a book, flying, whatever.

What do you consider your chief function?

The chief function of a chief executive is to get the best qualified management that can be found anywhere, and have them work in a compatible, nonpolitical atmosphere. And I mean nonpolitical.

One of the important objectives of my administration is to have no political back-scratching or biting in management. If it's found anywhere in this company, it is dealt with swiftly.

You have to make sure that people throughout every division are backing up the major executives. Call it management continuity through every position, including my own.

Another key function of the corporate office is to look down the road three to five years, planting the seeds for the company's future.

You don't make decisions for a big company that are going to return fruits tomorrow; they will probably bear fruit in three to five years or more.

How do you ensure a nonpolitical atmosphere?

We use a dialectic approach in many of our decision-making processes.

When you set up a dialectic group, that group's function is to challenge the other group and disagree with its opinions. What comes out of all the discussions is a course of action that has been completely explored, introspectively and objectively.

It's a devil's advocate approach that assures executives that they can speak out without any qualms.

As a chief executive, what frustrates you most?

The government's intervention in business. Instead of trying to shackle the free enterprise system, the government bureaucracy should be out to help it.

Do you think the business community is more activist today in presenting its views to government?

Very much so. Business is performing a preactive role rather than a reactive role.

It's not just saying, "we're against this," but rather: "We disagree, but we have something better . . . and here is why."

That's really what the free enterprise system is—going out in front of a problem, not letting the problem get in front of you.

Now, business is for good regulation. Business is against regulation for the sake of regulation.

I hope business can convey this message: Ours is the best political and economic system in the world; there's none that works any better.

We need to protect it and make it better. That's what I think we are all trying to do. □

To order reprints of this article, see page 58.

Evaluating the Company's Evaluation System

By David S. Davidson

More frequent review of goals and performance will lead to better long-term results

THE CAT FOOD division of XYZ Diversified Industries has had a spectacularly profitable year. The chief executive officer is properly rewarded by the parent company, and the business press hails him as something of a wonder worker.

Everyone says the tributes are well deserved.

But are they?

Let's look at a couple of things that didn't make the business pages. One of the division's goals was an increase in its share of the market from 17 percent to 20 percent. Actually, its share was unchanged.

Amazing growth

Another objective was to develop from within the organization three new key managers on the manufacturing side. Only one was developed.

A third goal was to increase plant capacity by five percent. By the end of the target period, the increased capacity was still six months away.

There is no doubt that the division did extremely well financially. But so did a number of competitors. Thanks to an amazing growth in the popularity of cats as pets, even firms turning out just so-so cat food did all right.

One year isn't everything

A good return on investment in a particular year, while of prime importance, isn't the only objective of a business.

Traditionally, companies evaluate management performance largely on the basis of financial success over relatively long periods, sometimes as long as a decade. In the fictitious case cited, performance was good in the short term, but the failure to meet other objectives could spell trouble for the organization over a longer period.

Setting up criteria

Management performance should be judged in both the short term and the long term, and specific criteria should be set up for really meaningful evaluation.

Evaluations might be made quarterly or semiannually. Making them less frequently would defeat a major purpose, to keep the managers and those who are evaluating them constantly advised of what is expected and what has been done.

Criteria would have to be modified to suit particular types of businesses, but for general purposes the following are suggested:

- Financial return;
- Market development;
- Product development;
- Personnel development;
- Use of resources; and
- Manufacturing performance.

If you ask a manager what he does, he may give you the classic reply first formulated in 1916 by French industrialist Henri Fayol: The manager plans, organizes, coordinates, and controls.

However, much of the executive's time is probably devoted to something quite different: unplanned, spur-of-the-moment activities to meet unprogrammed contingencies.

This is an argument for, not against, establishing specific goals upon which performance can regularly and frequently be judged.

A complaint of many executives is that they must do things that are really not important. If performance goals are established, many of these unimportant things won't get done. And that is all to the good.

When performance goals are set, all managers should be provided with a written communication for careful study. As subordinates will play an important role in striving for the objectives, they, too, should be apprised of what is expected.

It should be emphasized that evaluation will be an ongoing process, not something that will be considered when there is nothing more urgent to attend to.

Realism in goals

Goals must be realistic.

With new companies, particularly, there is often a tendency to set goals that are too difficult to reach. Failure to meet performance targets by a wide margin can be demoralizing, particularly to young executives, and can cause dissension in the company.

Goals that are too low, on the other hand, can be equally damaging because they deny managers the incentive to live up to their potential. This often happens in old, established firms that are not hungry. In either case, it can be a disservice to both the managers and the company.

An example of what can happen when unrealistically high performance goals are established and evaluation periods are too far apart is provided by an executive of a small publishing firm.

"For several years, we had been more or less dragging along with a small consumer periodical in a rather specialized field," he says. "After five years of publishing, our circulation

reached about 10,000 and stayed there.

"We decided conditions were right for an expansion push, so we set goals to be reached within a year.

"In product improvement, we aimed for a 25 percent increase in the use of editorial color and an equal increase in the use of outside writers. Practically everything had been staff-written, making for a good deal of sameness in editorial style.

"We targeted a 50 percent boost in advertising and a 100 percent increase in circulation.

"We also decided to try to upgrade one of the subeditors to managing editor status to replace a man with whom none of us was satisfied.

All goals missed

"Well, we missed all of our ambitious goals widely. Product improvement—chiefly more color and better writers—depended upon increased advertising and, to a lesser extent, on increased circulation. When the advertising and circulation income fell far short, money for product improvement simply didn't exist.

"I suppose more experienced managers would have seen the impossibility of coming anywhere near these targets, but we had the view that it could be done if we really set our minds to the job.

"When the year was up and we still hadn't made any great progress—we did make some—there were accusations and recriminations. One man resigned his position, although he stayed on in a less responsible job.

"One of our big mistakes, as I see it now, is that we didn't provide for frequent performance evaluation periods throughout the year. If we had, I am convinced, we would have seen that we were far off target, and while we would have been disappointed at the end of the year, our failure wouldn't have come as such a shock.

"The dissension and hard feelings certainly wouldn't have been as severe," he says.

Changing sights regularly

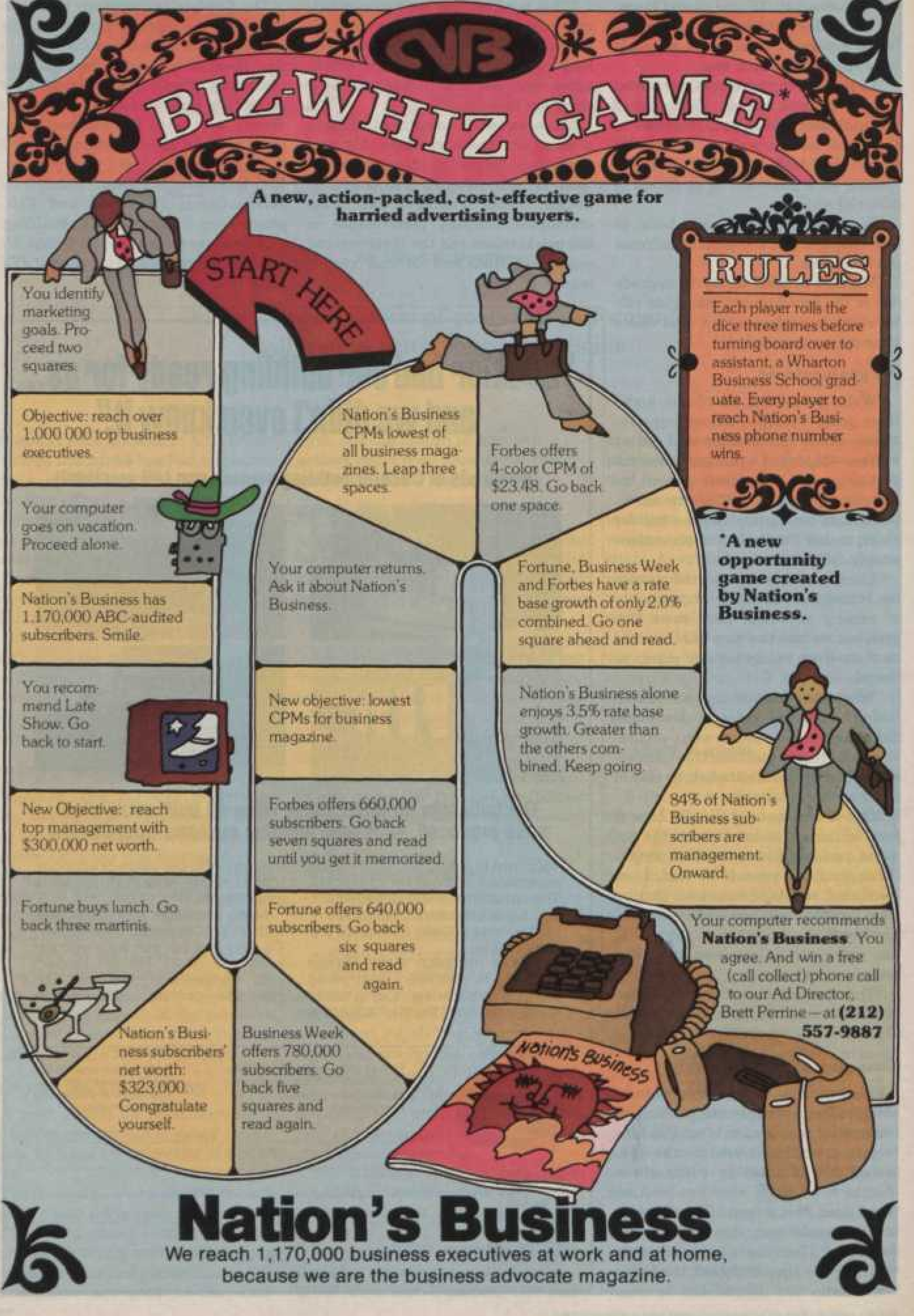
This executive, who asked not to be identified, reports that the publication has now set up a system of establishing targets in critical areas for the year ahead and of meeting every three months to evaluate what has been accomplished. If it is found that the goals are too ambitious, they are revised downward. If, on the other hand, progress is better than expected, the sights are raised.

"This is something we feel comfortable with," the executive says. "It is too early to say how it will work in the long run, but I feel, and the others agree with me, that it can't be anything but beneficial."

Management is sometimes thought of as an art. Those who take this view sometimes equate the company executive's job with that of a symphony conductor. The analogy can also encompass company performance in the marketplace and the planning and evaluation that lead to that performance.

The flawless performance of an ensemble on the night of a concert is the product of hard work and discipline in the rehearsal hall, with the conductor constantly stopping the musicians for correction and advice. The maestro doesn't wait until the number is finished to make his evaluation. □

MR. DAVIDSON *is general manager of International Telephone and Telegraph Corp.'s Educational, Building, and Transportation Services Group. He has been in group management at ITT since 1969.*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BIZ-WHIZ GAME*
A new, action-packed, cost-effective game for harried advertising buyers.
START HERE
You identify marketing goals. Proceed two squares.
Objective: reach over 1,000,000 top business executives.
Your computer goes on vacation. Proceed alone.
Nation's Business has 1,170,000 ABC-audited subscribers. Smile.
You recommend Late Show. Go back to start.
New Objective: reach top management with $300,000 net worth.
Fortune buys lunch. Go back three martinis.
Nation's Business subscribers' net worth: $323,000. Congratulate yourself.
Business Week offers 780,000 subscribers. Go back five squares and read again.
Fortune offers 640,000 subscribers. Go back six squares and read again.
Forbes offers 660,000 subscribers. Go back seven squares and read until you get it memorized.
New objective: lowest CPMs for business magazine.
Your computer returns. Ask it about Nation's Business.
Nation's Business CPMs lowest of all business magazines. Leap three spaces.
Forbes offers 4-color CPM of $23.48. Go back one space.
Fortune, Business Week and Forbes have a rate base growth of only 2.0% combined. Go one square ahead and read.
Nation's Business alone enjoys 3.5% rate base growth. Greater than the others combined. Keep going.
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Your computer recommends **Nation's Business**. You agree. And win a free (call collect) phone call to our Ad Director, Brett Perrine—at **(212) 557-9887**
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Putting Health Care Costs Under a Microscope

Lack of incentives to save money means a $830 tab for each individual

By John Jennrich

In one of his incisive "Grin and Bear It" cartoons, George Lichty portrays a doctor and patient in the examining room.

"I want you to undergo some tests, Mrs. Truffle," says the doctor, "to see how much medical attention you can afford."

The line is worth a chuckle in the Sunday comics, but in the board rooms of American business, paying for health care is no joke.

According to the Department of Health, Education, and Welfare, Americans will spend $183 billion in 1978 on health care, equal to 8.8 percent of the gross national product. That is more than $830 for every person in the country. Unchecked, the total will climb to $323 billion by 1981, moving close to ten percent of GNP.

TranScan, a mobile, X-ray scanner, is an example of the expensive equipment shared by hospitals to cut costs. Units are now used in Tampa and San Diego.

American business is the largest private purchaser of health services. Last year, business invested nearly $70 billion in health care. Of this, $34.5 billion went to group health insurance for employees and dependents plus workers' compensation medical benefits. About an equal amount went to taxes used for public health programs, company-sponsored health programs, corporate philanthropy, workers' compensation, and paid sick leave.

Altogether, health benefits equal about seven percent of total employee compensation.

History of increases

Predictions of large increases in the future are based on recent history. An article in Brigham Young University business school's publication, "Exchange," illustrates the problem.

"Four years ago price controls were lifted from the health industry," it says, "and by 1976 expenditures had risen by $33 billion, or 31 percent, while our gross national product had increased by only 18 percent."

Some details: "The largest expenditure in health cost is for hospital care, at $55.4 billion in fiscal 1976 or 40 percent of the total expenditures. Hospital care spending grew by 15 percent in 1976 and 18 percent in 1975. Between 1965 and 1975, hospital care spending more than tripled."

The article notes that doctors' fees are the second largest health care cost, at 19 percent of the total, and they have increased 34 percent since 1975.

These extraordinary increases affect the finances of nearly all Americans. What has been the public response?

A survey released last June by Louis Harris Associates for Hospital Affiliates International, Inc. shows that people are at least aware of the problem.

Asked which two items have increased in cost the most, 45 percent of the people rated health care first, followed by food, 34 percent, and doctors' fees, 32 percent. Which two items were most overpriced? Hospital care was chosen by 34 percent, automobiles and doctors' fees by 26 percent, and housing and automobile insurance by 25 percent.

Asked if price increases were justified by improved health care, 69 percent of the public said that the rise in doctors' fees was not justified, and 72 percent said that increased hospital costs were not justified.

Ninety-four percent of the public felt that hospitals ought to work together to keep costs from rising so fast.

Health worth any price

That kind of public response should clearly constitute a mandate to cut costs. But it doesn't quite work out that way. In the same Harris survey, 71 percent of the public agreed that better health care, which saves lives and makes the sick healthy, is worth almost any price.

Furthermore, given a list of areas in

Dr. Paul M. Ellwood, Jr., is president of InterStudy, which did a health care study for National Chamber Foundation.

A Large Industry

The health care industry in the United States is a large, labor-intensive service system. Excluding the pharmaceutical and health care supply industries, approximately 5.8 million people are employed within the health care industry, including: 400,000 physicians, 1.6 million nurses, and 3.5 million hospital workers at 7,000 hospitals and 22,000 nursing homes.

Health care, says HEW, with sales of $162 billion, is the nation's third largest industry. Only construction and agriculture are larger.

Here are some more statistics that reveal the scope of the industry:

- In fiscal 1977, approximately 16 percent of the population was hospitalized—37 million admissions.
- That year 170 million Americans—75 percent of the population—visited a physician at least once during the year. The average person made 5.1 visits.
- Not counting those in hospitals, there were 1.4 billion prescriptions filled. And a total of five billion laboratory tests were ordered.

which to spend more money, public and private, 60 percent picked health care, only four points behind education, the first choice.

Unfortunately, Mr. Harris didn't survey the comptrollers of private enterprise.

The problem breaks down into two related areas. The first is the lack of incentives to cut costs anywhere along the medical care delivery chain. The second is the overuse of expensive medical procedures.

Four links in chain

There are four links in the health care delivery chain, none of which has incentives to save money. First is the individual consumer, the patient.

More than 80 percent of Americans are covered by some sort of health insurance. Some of this insurance may be inadequate, but insured individuals tend to believe they have a right to as much health care as they can get. Paying for this care has been shifted from individuals to a frequently nebulous "someone else."

The second link in the chain is the physician, who decides who gets how much medical treatment and in what facility. Doctors are bound by their professional oath to do whatever they can for the patient, regardless of cost. Also, the increasing number of malpractice suits during the past few years gives doctors a sound reason to call for more medical tests to cover themselves in case of a lawsuit.

Hospitals try to attract doctors

The third link in the medical chain is the hospital, which has to attract doctors, and through them, patients, to stay open. Doctors want the most modern and the best equipment, and they tend to practice medicine at hospitals which have this kind of equipment. This may result in several hospitals having expensive specialty equipment, even though the patient load may justify only one such unit in the city.

Although hospital administrators may try to save money, there is little incentive to do so because the costs are passed on to the patients, and the patients pass the costs on to insurance companies.

They are the fourth link in the health care chain. In the past few years, the bigger insurers, including Blue Cross and Blue Shield, have run advertisements and commercials urging people to become more conscious of health costs and preventive medicine. But insurance companies are still trying to attract as many customers as possible, and they accomplish this by providing broader coverage.

The increasing premiums needed to pay for this coverage have been passed through the patient to either private business or a branch of government.

Unlike insurance for cars or houses, where the individual is acutely aware of the costs, health insurance is generally paid for by someone else. The government pays for Medicaid and Medicare, and if it needs more money, there is always the U.S. Treasury. Eighty percent of private health insurance is bought through the workplace, and about 70 percent of this insurance is paid for by employers.

So the chain is a full circle. Individual gets sick, goes to doctor, who puts him in hospital, which sends him a bill, which is paid for by the insurance company, which does this by collecting premiums, which come from—or on behalf of—the individual.

No one accountable

It's that last little wrinkle—on behalf of—that is now threatening to bog down the whole system. Because no one is accountable for the costs, they have risen and will keep on rising.

If an insurance company believes that up to $800 is a fair price for a particular operation, it ends up paying the full amount.

If an insurance company says it will pay physicians' fees that are usual, customary and reasonable—known as UCR in insurance jargon—it is unlikely that these fees will decrease in the face of rising inflation and costs.

And what about the bills that are too high, for whatever reason?

The entire health care system is swamped with paperwork. The easiest thing to do is to keep the flow going. So if a bill comes in that is, say, 15 percent too high, it may be cheaper to pay it, especially since the cost is passed on, than to stop the process and investigate the claim.

Back to the wrinkle—business is paying 70 percent of employees' health care costs. These premiums are becoming so large that they significantly raise the cost of doing business and, frequently, the final cost of a product or service. Rising costs also threaten labor-management relations because there is a limit on how big the employees' benefits package can become. And unions are beginning to realize this.

The question is: How can costs be contained?

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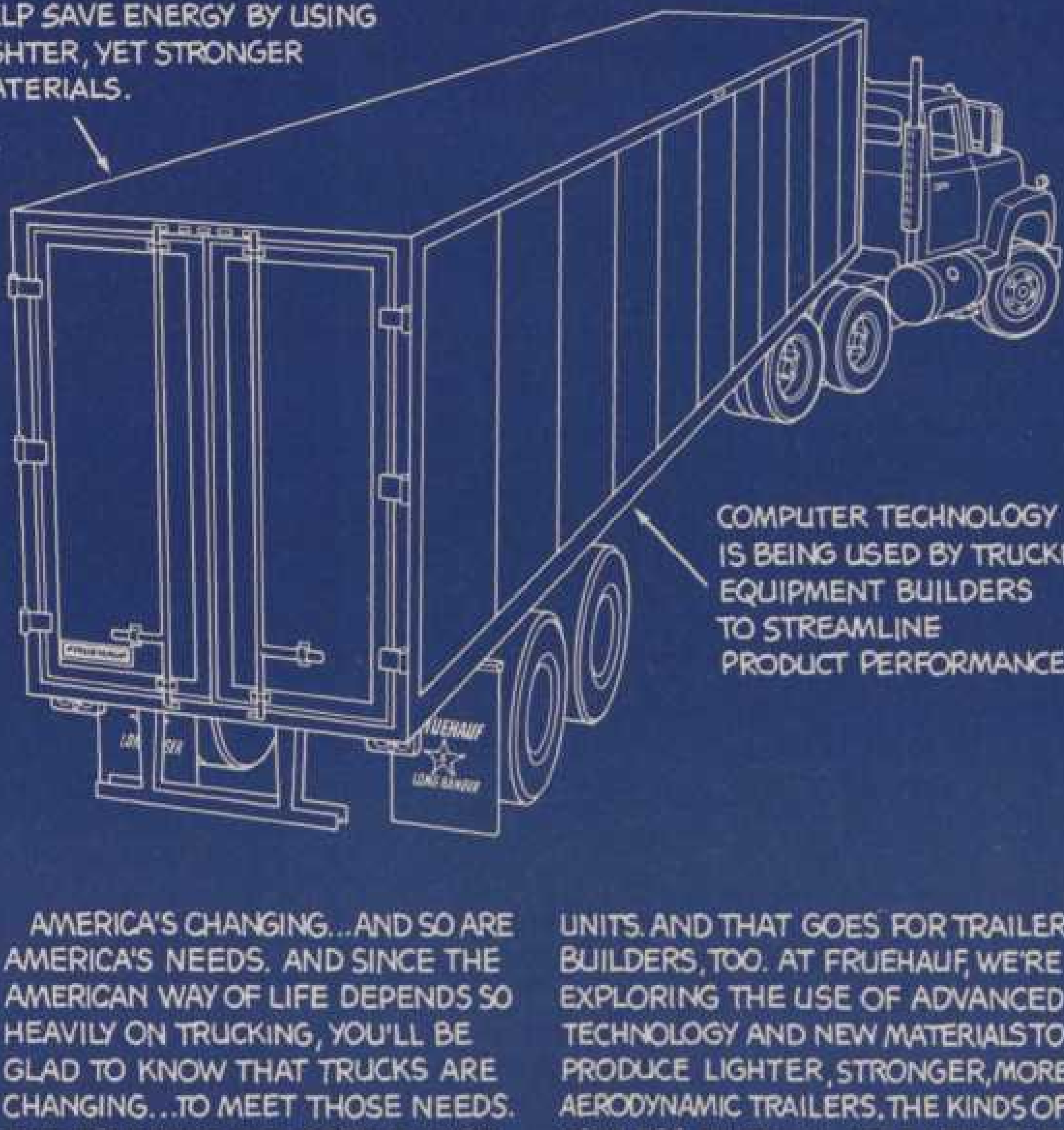

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Fruehauf

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There are innumerable parts to the equation, and what will work for one firm may not for another

Study tackles problem

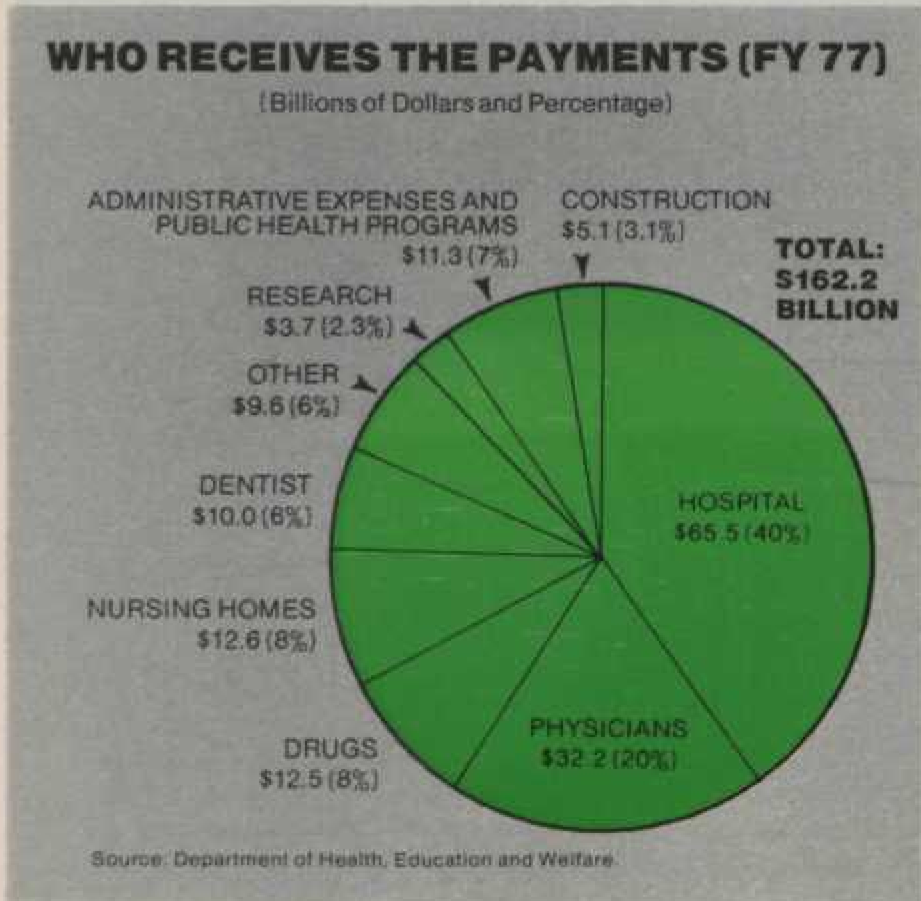
Many possible answers are contained in a comprehensive review entitled "A National Health Care Strategy." Sponsored by the National Chamber Foundation, this series of five monographs was produced by InterStudy, an independent health policy analysis and research firm in Minneapolis, Minn.

In one monograph, the foundation study suggests that businesses should periodically review programs to ensure that they are still cost-effective and responsive to needs.

Once a mechanism for dealing with health care problems is in place, the solutions will cover three broad areas: (1) cost-containment measures that generally can achieve short-term results; (2) long-range planning and involvement in the health community; and (3) alternatives to the usual fee-for-service system.

No single solution should be considered in isolation. Not only can several small savings achieve impressive results, but also the solution to one problem must not exacerbate another problem and cancel out the savings.

Within short-term cost containment, savings can be achieved by reducing administrative costs and controlling the use of and charges for services.



An important question to ask, says the study, is: "Who's in charge?

"Unless your firm is one of the few which has addressed health coverage problems in a comprehensive, coordinated manner, the answer will be no one," the monograph says. "For small firms, this may be the result of a lack of personnel. In larger firms, health-related issues are typically assigned to several people. . . ."

The important point, says the foundation, is that someone should be in charge, whether it is an individual, task force, or outside consultant.

One basic element of containing administrative costs is the review of claims. This can help pinpoint areas of high costs, such as one plant or division that is more costly than others.

Rockwell International, for example, developed a quarterly report codifying claims information by location. Although cost-savings estimates are not available, Rockwell plans to expand the program.

The study comments: "Since it is basically a retrospective mechanism, claims review does little to affect total incurred health costs; it serves primarily to reduce the portion of the bill paid by the employer. While it does save money in the short term by correcting administrative oversights and coordinating benefit plans, claims review does nothing to correct the underlying causes of rapidly escalating health care costs."

A second administrative technique is coordination of benefits and subrogation, which are responsible for avoiding duplicate claims payments and recovering expenses that should be paid by another party.

Without coordination of benefits, it is possible for consumers to be reimbursed for more than 100 percent of their costs.

This technique saved Standard Oil of California $32.3 million in 1975. Equitable Life Insurance Co. estimated that in 1976 the aggregate savings for all third-party payers was close to $1 billion.

Self-insurance saves money

A third administrative technique is self-insurance. Although primarily for larger companies, self-insurance can save taxes on premiums and earn interest on reserve funds. On the other side of the coin, there are additional risks, the necessity for additional staff, and the possibility of alienating the insurance industry.

John Deere & Co., which has 50,000 employees, began using self-insurance seven years ago. It estimates that it administers the plan for less than the best rate it could obtain from an insurance company.

Controlling service charges can save some money. But it can also harm the company's relationship with health care providers who may criticize the company for price-fixing, restraint of trade, or coercion. Nevertheless, the foundation study suggests three possibilities:

• Prospective hospital reimbursement. This is a regulatory approach that establishes the rate to be paid to a hospital in advance to provide an incentive for efficient operation.

• Prenegotiated physician fees. The company provides employees with a list of physicians who will accept an agreed-upon fee.

• Volume purchasing of drugs and optical equipment. A guaranty of a certain business volume results in lower prices.

The greatest area for short term cost containment lies in changing the use of services. Of the several techniques, only consumer cost sharing or copay-

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ment of medical care has the potential for large, effective savings.

There are two methods of cost-sharing: deductibles and coinsurance. A deductible is a specified dollar amount that an employee must pay before the insurer will pay the rest of the bill. Coinsurance is an arrangement in which the employee pays a specified percentage of the total bill.

Consumer decides

These techniques can reduce costs only if they are applied to services upon which the consumer decides. For example, cost-sharing for ambulatory care in which the consumer is free to exercise some discretion will likely be more effective than cost-sharing for hospital expenses for which the decisions are primarily left to doctors.

The rationale for deductibles and coinsurance is that it reduces premiums and provides an incentive for the consumer to consider costs in making medical decisions.

This is crucial. Philip S. Smith, Jr., manager of personnel and office services for the Highway Users Federation in Washington, D. C., favors both deductibles and coinsurance. He thinks that if deductibles were doubled, the consequent decrease in premium might equal the difference. He also favors 80/20 coinsurance.

While statistics on the effectiveness of cost-sharing are meager, proponents maintain that it works. Says Mr. Smith: "An insurance plan designed to keep the individual's interest in some portion of all costs will keep costs down."

But cost-sharing is no panacea. Many businesses cover only employee or dependent hospitalization; they exclude insurance coverage for ambulatory surgery, preventive care and screening examinations, pre-admission testing prior to surgery, and post-hospitalization home health care.

No incentive for saving

With this type of insurance, the patient tends to opt for the most expensive medical care—that which he receives in the hospital—although it may not be necessary. Says the study: "While it may seem paradoxical that both extensive third-party and cost-sharing can increase hospitalization, it is evident that different mechanisms operate to drive toward the same result."

Ambulatory surgery and home health care could save a lot of medical costs because they reduce the amount of time spent in the hospital, the most expensive part of health care.

The study estimates that 20 to 40 percent of all surgical procedures could be performed on an outpatient basis. In some areas, ambulatory surgery clinics specialize in procedures that are too demanding for the doctor's office but not serious enough for a hospital stay.

One of the larger home health care service organizations, Upjohn HealthCare Services, has 55,000 employees and 230 offices in the U. S. Upjohn says that home health care costs are about one third less than hospital costs.

Blue Cross and Blue Shield of Michigan estimates that for 1975 an average of 8.8 days of inpatient care were saved for each patient in the home health care program, for a financial savings of $1,113 per case.

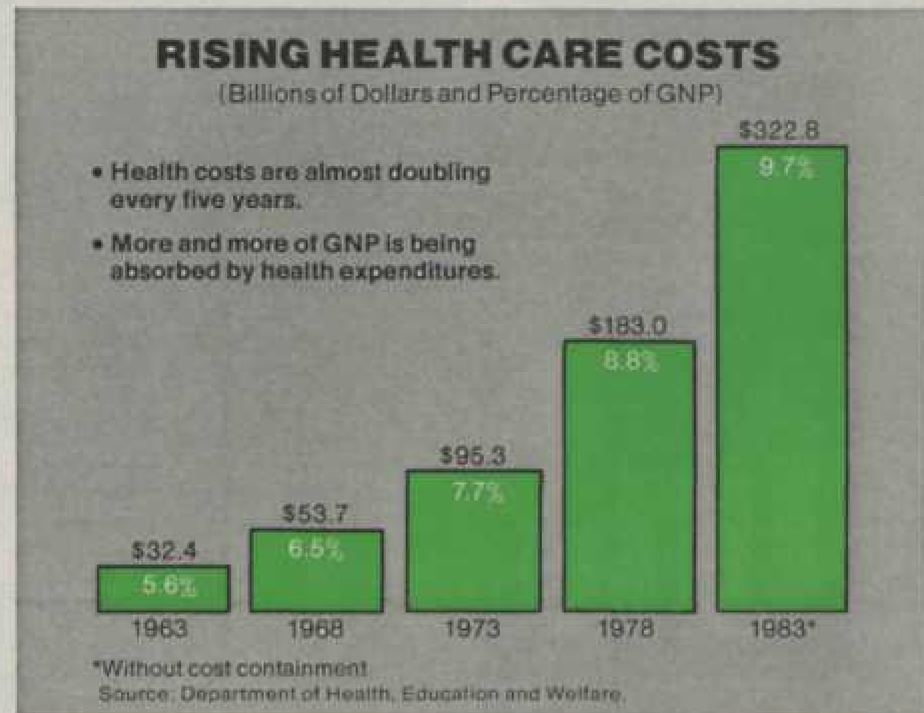
Despite the potential, cost savings may hinge on hospitals' reaction to these outpatient techniques. Unless hospitals reduce their capacity and fixed costs concurrently with the reduction in patient load, the only result will be higher rates for those who do use the hospital and no reduction in total costs.

Planning is crucial

In addition to instituting cost-cutting steps within a company, business people need to become active in community, state, and federal health care planning and regulation.

Planning for the private health care sector will involve dealing with providers, consumers, and third-party insurers through boards of trustees or directors at the institutional level and through various public groups at the community level. Time—lots of it—may be a key factor in getting on these boards and contributing to their work.

Public health care involves a process created by the National Health Planning and Resources Development Act of 1974, which divided the country into about 200 health service areas, each with an official, federally funded health systems agency composed of volunteer consumers and providers of health care. The agencies help to decide whether to expand hospitals or add new services.



Another problem is regulations. A New York study found that 25 percent of operating expenses for hospitals in 1976 went to comply with government regulations. Hospitals in New York State spent $1.1 billion to satisfy regulations imposed by federal, state, and local agencies; this expense added $40 a day to a patient's bill.

As another example, the American Hospital Association estimates that hospitals throughout the country will spend $170.4 million from 1977 through 1979 just to prepare required Medicare and Medicaid reports.

To combat such costs, business should become actively involved in both the planning and regulation processes. General Motors has 150 employees on various kinds of health-related boards. One GM spokesman, C.

ANN JONES CAN ORDER A CHOLANGIOGRAM CATHETER FASTER THAN SHE CAN SAY IT.

PROBLEM:

For most hospitals, purchase orders are a chronic problem.

The paper plague afflicts Purchasing.

Compiling and placing the average order for supplies can cost from $5 to $40.

Getting back written confirmation can take up to two weeks.

To protect themselves, hospitals tend to overstock. This ties up needed capital and space. It also complicates inventory control and invites errors. The piles of paper grow.

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As one of the nation's leading manufacturers and distributors of hospital supplies and equipment, with sales of $1.5 billion in 1977, American Hospital Supply Corporation saw the need for a system solution to the purchase order problem. So they consulted Bell.

SOLUTION:

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The system automatically accesses the company's computer. Orders are placed simply by inserting cards or by tapping out information on the Touch-Tone® dial. Time: 2-5 seconds per item. Hard copy confirmation comes via 43 Teleprinter—usually within 15 minutes.

One hospital using the system projects savings of $56,000 the first year.

Now, fingers do the ordering.

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Douglas Eavenson, assistant director for employee benefits, said recently: "We have asked our people to become involved in a knowledgeable, helpful way in the system where they work and live.

"We have asked them to be active, questioning members of local planning agencies, hospital boards, and Blue Cross-Blue Shield boards—not to check their brains at the door of the board room."

Get money's worth

Another spokesman, Victor M. Zink, director of employee benefits, summed up GM's view, which undoubtedly is shared by many other businesses: "In the process of helping our employees and their families attain better health, we in business should do our utmost to be sure we get our money's worth. In that respect, we ought to do what we can to keep as much of the activity as possible in the private sector."

And if people like Mr. Eavenson and Mr. Zink fail, what then? The answer is obvious: increased government involvement.

There are numerous plans to increase federal government activity in the health care industry, but the most comprehensive plan is for national health insurance.

Canada went to a national health care program about 20 years ago. It is really two programs, one for hospital care and the other for physician's care. A recent issue of the Federation of American Hospitals magazine, "Review," devoted a great deal of space to the Canadian experience.

Theodore Allison, assistant vice president in the government and industry relations department of Metropolitan Life Insurance Co., wrote:

"Not only has national health insurance exacerbated problems of health care costs, but also this and related government programs have created other problems in the health care delivery system. These include excess hospital facilities, high utilization of services, and overspecialization and maldistribution of physicians.

"In theory," Mr. Allison concludes, "government should be able to control both utilization and the cost of services. Yet, in reality, the Canadian governmental health insurance programs have failed to control utilization, costs, and total health care expenditures—all of which have risen more rapidly than in the United States."

Some success stories

There are success stories, however, to prove that costs can be contained.

One example is the practice of dentistry. Although the consumer price index for all services rose 7.7 percent from 1976 to 1977, the fees of dentists went up only 7.5 percent. Physician fees went up 9.3 percent, and the cost of semiprivate hospital rooms rose 11.5 percent.

For the decade before 1977, dental fees rose by 85 percent, compared with the cost-of-living index, up 94 percent; doctors' fees, up more than 100 percent; and semiprivate hospital rooms, up 200 percent.

Barry Bosworth, director of the President's Council on Wage and Price Stability, says that dentists "had the smallest increase in their fees."

But, 95 percent of the nation's dental bill is paid for by private dollars. Further, while 48 million Americans are covered by dental insurance, this hardly compares to the approximately 200 million with some sort of medical insurance coverage. And of those 48 million, many are involved in copayment plans.

The point is that the vast majority of dental patients has a direct, immediate financial link to dental care. They know it, and the dentists know it—and both groups have an incentive to reduce costs.

The woman who didn't particularly like seeing doctors didn't mind at all going to the dentist twice a year. "It's a lot cheaper to have him clean my teeth and discover any problems early than

Doing Something About Health Care

There's an old cliché that "everybody talks about the weather, but nobody does anything about it."

In many ways, the same could be said about the rising costs of health care.

The Chamber of Commerce of the United States has developed a kit of materials designed to help the layman understand the health care problem and do something about it.

The kit explains how to organize cost-containment action by setting up key leaders and task forces to mobilize whatever resources are available to a business, organization, or community.

The kit contains statistics to bolster the argument for concerted action and warns that the alternative to business lethargy in health care will be federal government intervention.

The kit offers four case studies in which well-organized action has led to positive results. These success stories deal with chambers of commerce in Cincinnati and Philadelphia.

There's a detailed account of how Cummins Engine Co. in Columbus, Ind., started the Columbus Occupational Health Association with six other companies in 1972. Today, 126 other firms have joined them, and coverage extends to more than 25,000 employees.

The fourth case study deals with health maintenance organizations in Rochester, N. Y., especially the Genesee Valley Group Health Association. This prepaid group practice was organized and financed by Blue Cross and Blue Shield in Rochester, beginning in 1973. It has more than 36,000 members and is innovative in its approach to health care. One example: coverage for almost unlimited ambulatory care.

The Chamber's health action kit summarizes the five monographs on health care done by InterStudy of Minneapolis and sponsored by the National Chamber Foundation.

The monographs, collectively titled "A National Health Care Strategy," are also reproduced in full in the kit. Titles include:

- How Business Interacts With the Health Care System (with a special action plan for small businesses).
- How Business Can Use Specific Techniques to Control Health Care Costs.
- How Business Can Stimulate a Competitive Health Care System.
- How Business Can Promote Good Health for Employees and Their Families.
- How Business Can Improve Health Planning and Regulation.

The entire kit costs $15, and there are volume discounts. For further information or to order a kit, write to HEALTH ACTION, 1615 H St., N. W., Washington, D. C. 20062.

it is for me to wait until a tooth hurts, then have something major done," she says. "It also hurts a lot less."

Furthermore, what's good for the patient has been very good for dentists. While dental expenditures as a part of health expenditures have dropped, dental productivity has skyrocketed. In 1952, the average dentist saw 2,872 patients a year. By 1972, patient visits had climbed to 3,692.

In another area, the president of the American Medical Association, Thomas Nesbitt, broke tradition at his installation this past summer. He asked doctors to hold down fee increases voluntarily. He said that fees, now rising at 9.2 percent a year, could be held to an eight percent increase in 1979 and seven percent in 1980.

Grady Memorial Hospital in Atlanta, Ga., instituted a cash-in-advance policy so that most patients are partly responsible for their medical costs. Result: The 1977-78 budget was up 8.4 percent, the smallest increase in five years.

The hospital, which serves an area with 22 percent of Georgia's population, modernized its energy systems and telephone network, computerized its Medicaid claims and many patient records, installed a new payroll system, began a self-insurance program to protect against malpractice suits, and went to bulk mailing to cut postal costs.

One final example. Hospital Affiliates International, of Nashville, Tenn., the group that underwrote the Lou Harris survey, has introduced a mobile, computerized tomography scanner. This million-dollar piece of equipment is a sophisticated X-ray machine that enables a doctor to obtain a detailed internal picture of the patient, which often eliminates the need for exploratory surgery or diagnostic testing.

The machine is called TranScan and is packed into a 55-foot tractor trailer. This enables the unit to be shared among several hospitals, thereby eliminating unnecessary duplication and reducing costs.

The inescapable conclusion is that the practice of medicine in the future is going to have to consider cost as a major factor in treatment.

And for business, the guiding principle for buying health care will have to be the same as it is for all procurement—get your money's worth. □

To order reprints of this article, see page 58.

Business

Life-Style

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SKIING
A WONDERFUL MADNESS

By John Costello

"I THINK the greatest thing in the world is to get out there when the powder is good and go through the woods down the mountain.

"It's like walking on a cloud."

That's what the businessman says. James L. Duffy is vice president of marketing for Cardwell Westinghouse Co. of Chicago, Ill.

His company sells equipment to railroads. Like his company, Jim Duffy is sober-sided and practical. Except when he talks about skiing and Snowbird, a Utah ski resort in Little Cottonwood Canyon.

The Duffys bought a condominium at the Salt Lake City resort about when it opened in 1971. For years, he and his wife, Marian, his daughter, Nora, and his son, Danny, went there every winter.

Now the children are grown. The family excursions are fewer. But the unfading memory of a mountain miles high, cruel and beautiful, snow-covered and challenging, is like a siren's song.

Unforgettable and alluring.

Jim and Marian still fly out there two or three times a season. He looks forward to the thrill of going off the top of an 11,000-foot peak for a spine-tingling, hair-raising adventure through knee-deep snow like confectioner's sugar to the base lodge 3,000 feet below.

Besides the Duffys, who else is in to skiing?

During the Christmas holidays at Stowe, Vt., or Aspen, Colo., the answer would seem to be everybody. But that's not quite true.

In a recent survey, Opinion Research Corp. found 13,900,000 addicts, adults and teenagers only. Uncounted were the children, some of whom are put on skis at the age of four or younger.

In addition to that 13.9 million, seven million said they used to ski but didn't last winter. More than half, however, plan to ski again.

Add both groups together and you get 21 million skiers, past and present. That's one American out of ten. The percentage is higher for teenagers. One of six is an active skier.

When Fred Gurley was head of the Atchison Topeka Santa Fe Railroad, the man with his hand on the throttle was a shutterbug.

Executives at Santa Fe's headquarters soon noticed something unusual. A lot of the upper-echelon brass started to carry cameras.

Now John Shedd Reed is chairman and chief executive officer of Santa Fe Industries, Inc., the railroad's parent company. And he, too, has a hobby—skiing.

But few of his senior executives seem to have discovered the rewards of schussing down a mountain at 40 mph.

"That's no mystery," says one observer. "It's easier to tote a Leica than to race down the side of a mountain."

John Reed began skiing at age 13, when he was in Europe with his family.

"In Switzerland," he says, "you took a train up the valley. Then you had to climb, on skis fitted with sealskin—the fur kept you from sliding backwards—up to where you started downhill."

Rope tows, chair lifts, and aerial trams have made it a whole new and better ball game, he feels.

"I think that's one reason why people ski so much better today," he says. "They have more time to go downhill, since they spend so much less time climbing up."

John Reed still spends a good deal of time skiing—48 years after he began.

What are skiers like? For one thing, pretty active. Eighty-four percent of them also swim, Opinion Research Corp. reports. And 68 percent cycle, 65 percent play tennis, 59 percent camp, 49 percent fish, and 47 percent bowl.

And skiing isn't just for males.

Many skiers are women or girls—42.7 percent of the adults, 44 percent of the teenagers.

Suzie La Belle, for example, is a downhill skier who, she says, went straight.

"I learned when I was eight years old, in Milwaukee. Maybe it's in the genes. Both my parents skied.

"But my brother, Mike, and I did it just because it was neat. It was a lot classier than belly-flopping down a hill on a sled."

While she was in high school, her family started going to Aspen for winter ski vacations.

What did she like about downhill?

"Oh, excitement. Being outside in the winter, too. But knowing I could do it well on difficult slopes. The thrill of

PHOTO: PETER MILLER—LENSMAN

Remote mountain slopes are a favorite challenge to expert downhill skiers.

knowing my body could handle those things."

What soured her on it?

"The long lift lines, the crowds, and the expense." Skiers spend about $3 billion a year on lift tickets, food, lodging, and transportation.

Now Ms. La Belle skis only cross-country, over flat or hilly terrain, something like hiking on skis. During the winter, she never misses a weekend.

"I find eminently more satisfaction in challenging a steep wooded slope on skinny skis (cross-country skis)," says Ms. La Belle, a supervisor at Commonwealth Land Title Insurance Co. in Washington, D. C.

"As a businesswoman, I find that it helps me face each week renewed."

Like Ms. La Belle, a Marquette University graduate, most skiers are young and have spent at least some time on a campus.

Three out of four have had some college, the National Ski Areas Association says, and 45 percent have college and graduate degrees.

Four out of ten are under 25 years of age. Nearly half are aged 25 to 45.

THE SPORT itself is young. It was in diapers until after World War II.

True, the first rope tow began dragging skiers through the snow at Woodstock, Vt., in 1934. And Averell W. Harriman's glamorous Sun Valley resort opened, with chair lifts, in 1936.

But after World War II, Army surplus ski equipment was dirt cheap—and plentiful. Soon the equipment was being improved—plastic boots, metal skis, better step-in bindings.

Then in 1955, the fashion world created stretch ski pants. The sport, and apres ski, were never the same again.

In the 1960's, resort building boomed.

"The era of the mega-resort began," says "America's Ski Book." "The money it cost to start Vail in 1962—about $5 million—probably represented the value of all the major American ski areas at the start of World War II."

Now 40 out of 50 states have ski

areas—cross-country, downhill, or both.

Hawaii isn't among them, however. Proving, perhaps, that no place is completely perfect.

Jay VanAndel, board chairman of the Amway Corp., Ada, Mich., learned to ski from fellow churchgoers in Denver. At that time, he was an armanent lieutenant in the Army Air Corps during World War II.

"Lowry was an air training base, and I often went there for special schools. The Army had ski troops stationed at a base nearby.

"I met some of them through a church I attended—the Christian Reformed Church. We would get together and go skiing on weekends."

This put Lt. VanAndel in on the ground floor of a sport that had not, at the time, swept the country.

"I got out of service in late 1945 or early 1946, and right after the war, skiing was not that common.

"You had to make some effort to go skiing then. I used to ski at Aspen when it had only one tow.

"Then gradually, Michigan began to get into the ski business, and a few places opened up here.

"When our children were small, in the 1950's, I found it to be a sport that they enjoyed very much. It was a family thing. I found it to be far better than golfing, where you always leave the kids behind."

Jay VanAndel taught his wife and children to ski. Now, he says, the kids are better than he is. "That's the way it goes, you know."

ONCE, JOHN NEMSICK was perfectly happy with racquet ball, golf, and tennis—platform and clay court.

"I'm a very active guy," he says, "and these sports satisfied my need for physical competition."

But he was haunted by a song. It's a moving Harry Chapin melody, "The Cat's in the Cradle." The title comes from the game that children play with string. The song tells the story of a man who's too busy for his son when the son is a little boy.

When the boy's a man, he's too busy for his father.

"That got to me," says John Nemsick. "So I decided I'd better do something to keep that from becoming my life-style—because I was going that way.

"The typical family vacation that my wife, Donna, and I took with the children went like this. We all wound up traveling together in the same car. But when we got where we were going, we split up.

"A lake, for example. The kids went in the shallow water, Donna and I went in the deep.

"Then that little memory bank clicked about how much fun skiing could be for a family. So we did a little one-day ski outing, just on impulse.

"We shot up to a little downhill place in Connecticut called Mohawk Ski Area. It's very reasonable and only about an hour's drive from where we live in Pound Ridge, N. Y."

Then, the oldest child, Karen, was 11. The youngest, Steven, was four. Kathy, Kevin, and John were in between.

"That just led to a whole bunch of fun," says Mr. Nemsick, a corporate logistics manager at General Foods Corp. in White Plains, N. Y.

"All of us skiing together, taking lessons in the same group, falling down together. Now, three years later, we ski probably 12 weekends every winter, plus a week we spend at Eastern

PHOTO: JIM WEDLAKE—UNIPHOTO

Cross-country: exercise and sport.

Ski Co-op, an inexpensive resort at Mount Sutton, in Canada. That's a trip we look forward to all year.

"Now, we find that we're doing much more than just riding in a car together."

Almost five adult skiers out of seven do downhill—Alpine. One out of seven, a skiing magazine survey shows, does cross-country—Nordic. The rest do both.

Downhillers head for the slopes nearly eight times a year. They spend an average of 11.1 days there. Cross-country types ski more often.

"We have more time," one Nordic buff cracks. "We spend less time on crutches."

Then, of course, there's free-style—ballet, for example, and acrobatics. Purists sometimes call this hot-dog skiing.

Cross-country may be growing fastest. Mitch Mode thinks so.

"I was darn near born with skis on," he says. "I started when I was four, downhill."

His father owns Mel's Trading Post in Rhinelander, Wis., a sporting-goods store. Mitch, a University of Wisconsin graduate, manages the cross-country shop in his father's store.

"Ten years ago," he says, "we didn't even stock cross-country skis or equipment. Six years ago was the first time we put in a half-dozen pairs of cross-country skis.

"Last year, we sold 1,300 to 1,500 pairs of skis of all kinds. More than half were cross-country."

Mitch has made the switch.

"I used to live for those two weeks when I could go out West and ski in Colorado and Utah," he says. "Now all my skiing is cross-country."

Is cross-country a sissy sport, as some downhillers claim?

Downhill can be breathtakingly fast.

The speed record is 123.04 mph. It was set last July at Cervinia, Italy. Downhill racers have gone faster than 120 mph at Portillo, Chile, a favorite place for North Americans to ski in June, July, and August.

In contrast, the Gold Cup speed record for motorboats on a three-mile lap at Seattle, Wash., is 120.35 miles an hour, a record that has stood for 13 years.

Mitch Mode laughs at the sissy question.

"Well," he says, "you don't go cross-country to get the same excitement that you get from downhill.

"What you get is a feeling of accomplishment by getting where you are going using your own body's skill and strength. Instead of using gravity to slide down a mountain, you have to use muscle to get across the snow.

"I think a vigorous cross-country skier is as good an athlete as you'll find."

But downhill's appeal is not just speed. It's an aesthetic as well as an athletic experience.

"I always liked the way skiers looked, coming down a mountain," says David Augustine of Laurel, Md., a self-employed patent researcher. He's a speed-boat builder and racer who took up skiing when he was close to 30.

"Carving a graceful pattern down a slope is like painting or doing calligraphy," he says.

Golf jokes or tennis yarns tend to poke fun at the Sunday duffers or the double faulters who are slaves to their sport.

Ski stories are of a different genre. After all, to play first-rate golf, stunning tennis, or world-class chess, you needn't risk a shattered pelvis, a splintered leg, or a month in traction.

Thus, the classic ski story.

A downhiller has gone to heaven. "Is there any skiing here," he asks St. Peter. "The best," is the reply.

The two go to a downhill run that makes the skier's palms sweat. Then, to his amazement and delight, he sees a magnificent skier take it at full speed.

The downhiller says to St. Peter: "There's something wrong. Only a skier like Jean-Claude Killy, the great Olympic and World Cup champion, could ski like that. And he's not dead."

"No," says St. Peter, "that's not Jean-Claude Killy. It's God, but He thinks He's Jean-Claude Killy." □

Safe and Sane Schussing

Proper preparation of body, equipment, and mind will help you enjoy an invigorating and safe skiing season.

Get your body in shape before the first outing. Although you may have participated in other sports during the summer, skiing will use different muscles. If you have been inactive, enroll in a physical fitness class to tone your body. Regular jogging or running builds up heart and lung efficiency. Half knee bends and sit-ups are also excellent exercises.

Skis that have been stored in a garage may need the rust removed from the metal edges. Edges should be sharpened. A touch of silicon or similar spray should be applied to the bindings. Some wax on the top side of the skis will make them look good and protect them from moisture.

Gouges on the bottoms should be filled, and the bottom surface waxed properly. Skis must be equipped with ski stops or safety strips to prevent the skis from flying away should they become separated from your boots.

Also be sure that everything fits well, from boots and bindings to sunglasses and hat.

Perhaps the most neglected part of preparation is conditioning the mind. Your inner awareness is related to your outer performance. W. Timothy Gallewey, author of "The Inner Game of Skiing," says that learning a physical skill is best done when learning includes awareness.

"First we have to learn to trust our body, to learn from it. If left to itself the body knows what to do," he says.

Obviously, beginning skiers should not start at the top of the hill, and even the more advanced should ski only where they are in control.

Whether novice or expert, a skier should start the season with lessons from a certified instructor. It makes for safe and sane schussing all season long.

"New Jersey's business climate has been good to Okonite for 100 years."

Victor A. Viggiano

Victor A. Viggiano,
Chairman of the Board and President, The Okonite Company

"Our administrative offices are in a rural setting."

"We have three large plants plus testing facilities in New Jersey."

"New Jersey abounds in recreational opportunities. Beautiful wooded areas near our headquarters are delightful for jogging."

"Okonite is employee owned, so we take a special pride in our products."

"I enjoy both the New Jersey State Opera and the Metropolitan just 30 minutes from my home."

"Okonite produces wire and cable of the highest quality for the electrical industry."

"In New Jersey, Okonite has been making engineered wire and cable products for over 100 years. Frankly, we believe that no other state offers us a better industrial climate.

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"Here we have access to a major market area of the United States. That means we distribute our products economically and efficiently.

"We also find that raw materials, especially metals, and reprocessing capabilities are readily available here on the East Coast. That's important to our business.

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"Okonite is the largest company in the United States whose shares of stock are owned by its employees with an Employees' Stock Ownership Trust. This means we have nearly 2,000 free enterprise owners interested in producing the highest quality electrical wires and cables to assure our continued success. And it all started a century ago right here in New Jersey."

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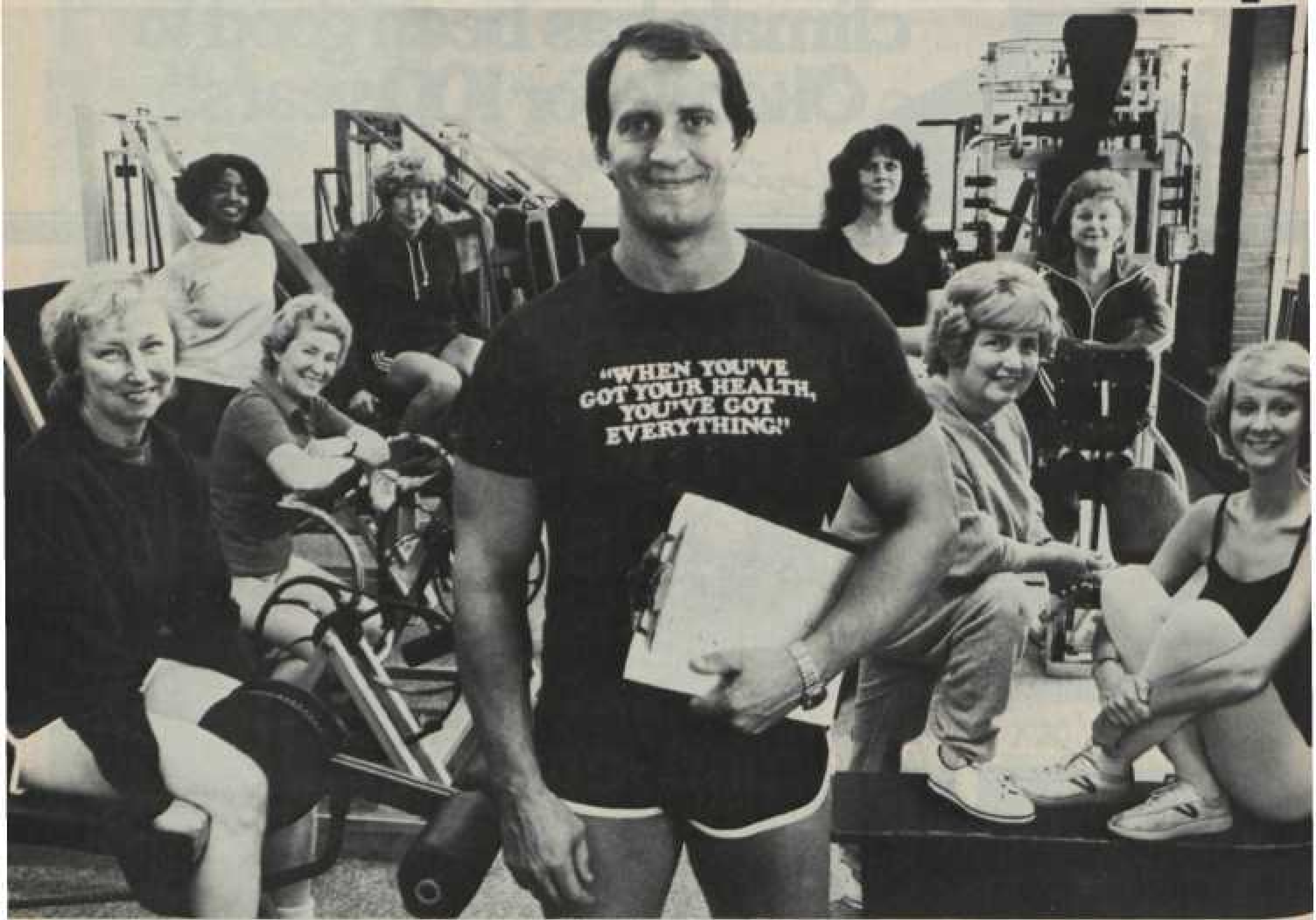

(Ed Wolen, Co-owner: Nautilus Health Clubs in the Metropolitan Detroit area.)

"What, you may ask, does a muscular Adonis-type such as myself know about media buying?

"All I have to know is when it brings in more flabby thighs, more dropped derrieres and more muscles that can't cut the mustard, it's a good buy.

"When it does all that for very little money, it's a great buy.

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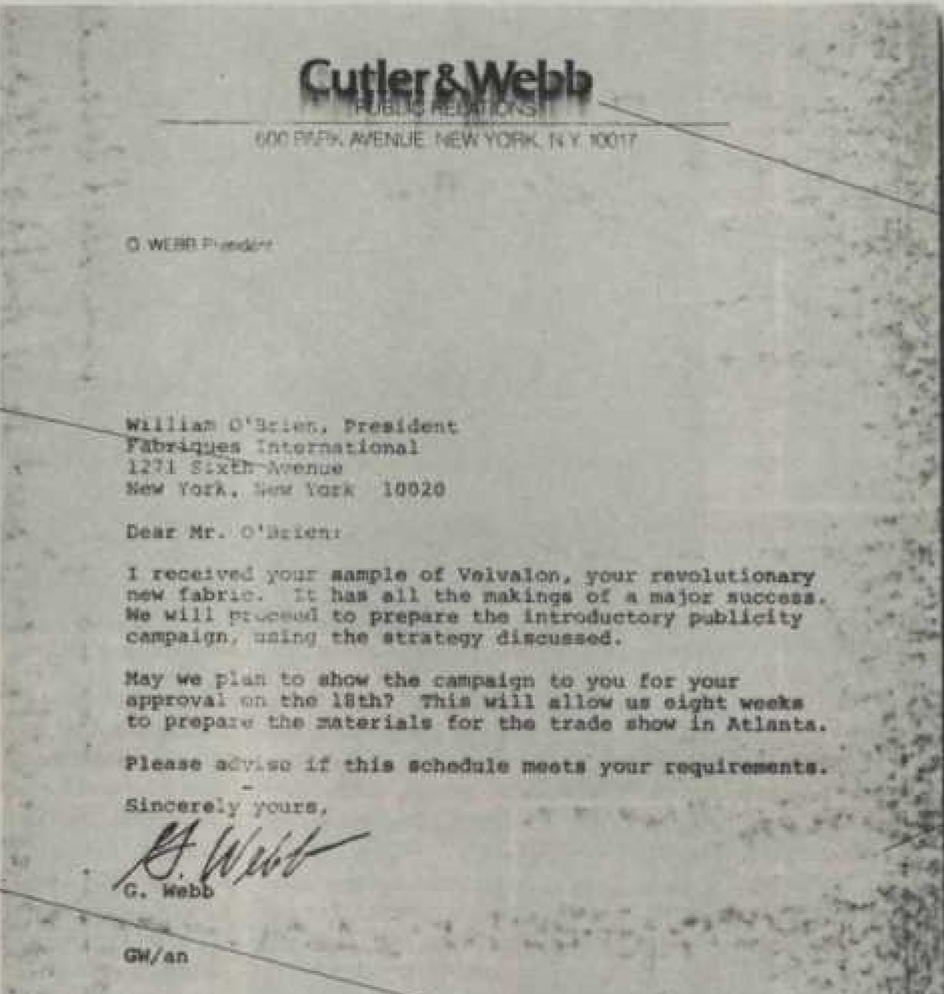

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By PRISCILLA SCHWAB

"My Name Is Lebenthal; I Sell Bonds"

Sayra Fischer Lebenthal started selling municipal bonds a few years after she graduated from Syracuse University Law School—in 1920.

Today the whole family sells bonds, and Lebenthal & Co., Inc., still has two $500 bonds issued in 1870 for planking to cover Central Avenue in what is now the Bronx. The bonds, kept in the Lebenthal vault, have paid 7 percent per year, year in and year out. They mature in March, 2135.

Mrs. Lebenthal and her late husband, Louis S., founded the firm 53 years ago when bonds were the playthings of millionaires. The Lebenthals, too cash-shy for bigger ventures, went after odd-lot bonds of small denominations.

"It was one or two bonds to a customer," says the dowager doyenne of New York's bond market. "We had to cater to the individual. We still do."

The Lebenthals were selling bonds "a hundred hours a day. My children, James and Eleanor, weren't brought up on mother's milk; they were raised on municipal bonds."

The total immersion in financial matters didn't take initially. Both James and Eleanor Lebenthal pursued other careers. James produced "Flash, the Odyssey of an Otter" for Walt Disney, among other things, worked as a Hollywood reporter for the original "Life" magazine, and wrote advertising copy at Ogilvy & Mather, Inc., for IBM, Robert Burns cigars, and Stripe toothpaste.

"It occurred to me one day," says James Lebenthal, "why not do this in the family business and benefit directly from the results?" He did, and he has.

Eleanor was in the publishing field—she also worked for "Life" magazine—and in the producing end of the theater. Her husband, H. Gerard Bissinger, II, was in advertising for 20 years.

"It is very frustrating being successful for someone else," they say. "You might as well be successful doing your own thing, or at least trying to do your own thing." Today, they, too, are selling bonds.

Selling bonds is not quite like pitching used cars. "The key is getting information across to the public," says Mr. Lebenthal. "We have used advertising extensively to educate the public about the myth of municipal default, the mystique of Moody's ratings, and other hangups people have about municipal bonds."

PHOTO: STEPHEN HOPKINS

Lebenthal & Co., Inc. . . . Jerry, Jim, Mother Lebenthal, and Eleanor.

Mrs. Lebenthal, whose second husband, I. Arnold Ross, is general counsel to the company, believes that, with few exceptions, only institutions need Triple A bonds. "I think I know the municipal bond market if only because I have been in it for so long," she says. "Ratings are for those people who don't have enough confidence in us. The higher the rating, the less the return."

Adds Mr. Lebenthal: "The general obligation, full faith and credit municipal bond, whether issued by Dogpatch or New York City, is the safest investment in America, second only to government bonds."

The big growth in the municipal bond market came in the early 1970's, and Lebenthal's growth has been steady since then. Mr. Bissinger relates that growth directly to the company's advertising campaigns that aimed at educating the public. "I suspect most of our customers are really not stock-oriented," says Mr. Bissinger. "They are what I call squirrels. They want safe investments."

In the hothouse of bond selling, do the Lebenthals find themselves competing against each other? "When Mother has sold a large block of bonds," says Mr. Lebenthal, "instead of just taking the ticket up to the trading desk, she will walk past my office and wave it at me. Pass it right under my nose."

Says Mother Lebenthal, who aims at selling more than a million dollars worth of bonds every month: "My forte is selling. I love it."

A Stubborn Stargazer Survives Well

Frank G. Dobbs spends his spare time staring into space—through a telescope at his homemade observatory in Old Saybrook, Conn. The other 95 percent of Mr. Dobbs's time is spent in an antique New York City building that is the home of FranStef Manufacturing Co., which he and his brother, Stephan, founded in 1938.

Begun in response to Hitler's seizure of their father's factory in Austria, FranStef today is probably the last survivor of the importing wars that demolished so

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Frank Dobbs seeks relaxation in his homemade observatory whenever he can.

many other manufacturers of low-priced personal accessories.

"We started very small in America," says Mr. Dobbs, "by importing the cigarette lighters my father made. After his factory was taken, we started making leather tobacco pouches. When the war ended, we branched out into wallets, change purses, and cases for keys, eyeglasses and cigarettes."

That market was passionately competitive, particularly in the lower-priced range of small leather and man-made goods. But FranStef and dozens of other small manufacturers flourished. However, in the 1970's, low labor costs abroad, especially in Korea, Taiwan, and Hong Kong, began to erase American profit margins.

"Many of the companies just gave up," says Mr. Dobbs in the mellow tones of his native Vienna. "Not me, I am stubborn, and a mechanical engineer by training. I used the method of Henry Ford, mass production."

The scale was smaller, but the assembly-line methodology worked well. FranStef can turn out about 20,000 pieces of merchandise a day. And the machinery, much of it drafted by Mr. Dobbs, can be quickly retooled to adapt to style and color changes dictated by fashion.

"The whole system is computerized and conveyorized," says Mr. Dobbs.

The multimillion-dollar company is growing at about 30 percent annually, says Mr. Dobbs, but "we are not a giant—we have only 120 people working for us."

Why did FranStef remain in the somewhat blighted Broadway area of lower Manhattan when half a dozen states and even the city itself were wooing the company to relocate?

"Well," says Mr. Dobbs, "some of the offers were tempting. And New York City taxes are higher, but not that *much* higher. I don't regret staying. My workers are here, and with the subway we can all get to work in a snowstorm. The restaurants are good, and business is just a lot easier. We leased another two floors and expanded into the building next door."

Meanwhile, whenever FranStef can spare him, Frank Dobbs climbs a narrow circular staircase to a 10-by-10-foot room with walled-in windows and stares into space. "I see the moon, Saturn, Jupiter, and Mars. It is fabulous."

Blade Firm Casts a New Shadow

John R. Baker was not about to let ten years of his corporate life be drowned in a liquidation of the American Safety Razor Co. The 103-year-old firm, whose Gem blades erased many a five o'clock shadow, was owned by Philip Morris, Inc., and Mr. Baker was president of the division.

Today he is still president, but he and eight cohorts own American Safety Razor Co., along with the Bank of Virginia which lent them $9 million.

"We had to raise $600,000 cash to buy the company," says Mr. Baker, who is senior statesman of the group, "but only by a few years. That is an awful lot of money for people who would never be considered rich. We put up all the money we had and all we could borrow. There were a lot of second mortgages. There was even a rumor that some guys sold their children."

Why did Philip Morris want to sell a venerable blade company that had a respectable 12 percent of the market? "Philip Morris has very successful beer and cigarette brands, and lately, a soft drink," says Mr. Baker. "It was like three giants and a pigmy. Being a $40 million company in a $4 billion corporation is just too small. There are really only four companies in the blade business and Gillette is more than double the size of the others put together."

Also, the Federal Trade Commission rejected the firm's application to sell American Safety Razor to the Bic Pen Corp. because it would reduce name brand competition. "We begged the FTC to let the sale go through," says Mr. Baker. "Our employees at the plant in Staunton, Va., and others caravanned to Washington to try to reverse the FTC decision. We enlisted the aid of senators and representatives."

Ironically, in the company's darkest hour, another branch of government dispersed the specter of liquidation. The Economic Development Administration can dispense aid to depressed areas under Title IX, and Staunton—population, 22,000—would certainly have qualified if all 870 people employed by the company had been out of work.

At the time of the FTC decision, in early February, 1977, those 870 people had 680 home mortgages totalling $14 million, 468 cars on which payments were owing, and 102 children in college. The EDA kicked in $6 million, and the State of Virginia Industrial Development Authority came up with $250,000 more to meet the purchase price of $16.7 million set by Philip Morris, which was just about its equity in the company.

If Philip Morris, one of the top marketing companies in the country, couldn't make a success of American Safety Razor, what made Mr. Baker and company think they could? "We had many a sleepless night thinking about that," he says.

"But, we had lots of ideas for the company that were shelved when all the uncertainty hit us. Now, we are ready to expand our natural markets. We are flexible enough to specialize to take care of all those blade needs that the big companies won't bother with."

In the year since they bought the company—"September 30, 1977 is forever etched in my memory"—Mr. Baker and his team have restored the company's cash flow, have rehired many of the 275 employees laid off, have built an advertising campaign for Flicker, the woman's disposable razor, and have made new inroads in the industrial blade market.

"In that field," says Mr. Baker, "we are the giants."

John Baker and his team. They put up all they had and all they could borrow.

Openness in Government: Sunshine or Sunburn?

By Charles S. Bullock
and F. W. Steckmest

When does visibility cloak secret prior decisions? When does full disclosure become invasion of privacy? This article explores the parameters of running a democratic government under broad public scrutiny

Openness in government is an essential ingredient of democracy. Without public scrutiny and participation, there would be no democracy.

Fortunately, the American system of government is one of the most open in the world. Even so, there are mounting pressures for still more openness.

In recent years, Congress has enacted a variety of laws in response to such pressures. Additional reforms are being considered, and President Carter is pledged to an open government with full-scale public participation.

This has raised an issue of critical importance to business. The issue centers on questions of how much secrecy, confidentiality, or openness is needed in each governmental process, and at what stage and for how long. The answers—now evolving in the public policy process—will continue to affect how business and other interest groups deal with government and relate to each other.

Series of scandals

One reason, of course, for the emergence of openness proposals in the 1970's was the series of scandals involving major public officials. Not only were a President and a Vice President forced to resign, but also ten members of Congress and two governors pleaded guilty or were convicted of illegal actions.

Proponents of more openness believe there would have been fewer misdeeds in government if there had been adequate provisions for public disclosure.

Also, leaders of environmental, consumer, and other special-interest groups believe that if governmental deliberations are conducted more openly, their views will be more influential.

Finally, many proponents believe that increased openness is a requirement for the restoration of public trust not only in government but also in business and in other interest groups involved in government relations.

Benefits and pitfalls

People who advocate more openness in government say:

1. Openness has the effect of setting and maintaining high standards of conduct for government officials and those who deal with them. It inhibits questionable conduct and allays suspicion.

2. Openness helps make elected officials more accountable to their constituents and nonelected officials more responsive as public servants.

3. Public visibility encourages conscientious performance by officials.

4. Provision for openness tends to balance the participation of all interests in their efforts to influence decision-making.

5. Openness aids the media in monitoring performance of officials and penetrating cover-ups.

Those who are concerned about excessive openness say:

1. Openness rules can produce worse consequences than the problems they are supposed to eliminate; they may create more clandestine discussions and agreements prior to staged public meetings.

2. Government officials cannot operate efficiently without a certain amount of confidentiality in discussions and decision-making.

3. Stringent regulations discourage qualified people from participating in government service.

4. Many openness provisions require more regulation, usually with higher costs to taxpayers and consumers and, in some cases, an extraordinary volume of record-keeping.

5. Premature disclosure may preclude necessary decisions from being made.

Need for confidentiality

Despite pressures for increased openness, there is general recognition of the need for confidentiality in some aspects of government—in national defense activities, for example, or law enforcement investigations, or regulation that involves company trade secrets.

Because openness is a wholesome

concept, there is suspicion of those who oppose its extension. Incisive criticism of excessive openness in government has come from only a few individuals such as Edward H. Levi, former U. S. Attorney General, and Irving Kristol, professor at New York University and senior fellow of the American Enterprise Institute.

The full consequences of the openness reforms so far put into effect are yet to be determined. It is one of the ironies of history that reformers so often misjudge the consequences of their reforms. There is no doubt, however, that the rapid increase in openness is having and will have significant effects on the conduct of government.

Evaluating and criticizing

For one thing, the openness reforms are helping special-interest groups to evaluate and criticize government activities. This is not surprising, since advocacy of more openness came primarily from these groups. In contrast, some of the reforms have been directed at reducing the influence of the business community, which has largely been unaware of or noncommittal on the proliferation of openness provisions.

The openness trend will continue to increase the relative influence of special-interest groups unless other groups improve their governmental relations, skills, and efforts.

Business has responded with efforts to improve grass-roots involvement and personal participation by more corporate chief executives in the public policy process. These activities are credited with some of the successes business has had with Congress. In contrast, however, some openness reforms are directly aimed at reducing the influence of money in politics by regulating election campaign contributions and expenditures.

Effect on votes in Congress

A potential consequence of greater openness is a change in the nature of accountability of congressmen to their constituents. Because their individual performance and voting records are increasingly subject to public review, there are likely to be many more cases where congressmen act simply as delegates and vote in accord with their constituents' wishes, even if they believe the consequences to be unwise. This would represent a change from the practice of many congressmen who act as trustees by voting in accord with their informed judgments.

In the past, the risks of electoral retribution for trusteeship voting were minimized because many decisions were made out of public view. However, open committee deliberations, increased numbers of roll calls, and widespread disclosure by the media and interest groups have created a new situation.

Bar to government service

As excessive or impractical openness regulations are adopted, a growing number of able people become unwilling to enter government service. Some candidates for appointive office are deterred by knowing that they may have to divest many of their financial holdings and will be questioned about such matters as financial status, tax reports, health, friends, family, and personal beliefs.

A neutral observer, Herbert E. Alexander, director of the Citizens' Research Foundation, cautions against requiring excessive disclosure by public officials.

"A society that strips all personal privacy from individuals who are or who want to be public officials must pause to wonder just what standards those public officials would tend to use when assuring a citizen's right to privacy," he says.

Rep. Otis Pike (D.-N. Y.) recently cited among his reasons for not seeking a tenth term the anomaly that after fighting and voting to protect the privacy of individuals, he was now expected to give up his own.

The need for balance

In a 1975 speech, then-Attorney General Levi said the American public is misled if it does not understand that important values which must be balanced are involved in the openness issue. Among these values, he said, are confidentiality, the right of the people to know, and the right of the government to obtain important information.

Yet, a national poll reported early this year that, while 76 percent of the public "want Congress to make government more open to what really is going on," there is little evidence of public interest in the practical problems, the costs, or the consequences that some openness reforms may create.

Public support for more regulation without understanding the consequences is an inconsistency well known to pollsters and politically astute officials. In this case, there is evidence that Congress and the administration may be coming to rec-

ognize that the new openness provisions should be tested rather than expanded.

Reality and rhetoric

President Carter is finding that campaign rhetoric on open government and the reality of governing in the open are not the same. In the first month of his administration, Mr. Carter disclosed that his cabinet officers almost unanimously opposed his idea of permitting media representatives to attend and report on cabinet meetings.

And many congressmen are recognizing the practical limits to conducting their deliberations in public. A recent example was the retreat behind closed doors of the House-Senate conference committee on President Carter's energy program.

At the administrative level, many federal department and agency officers are openly concerned that the 1976 Government in the Sunshine Act has created problems and costs that far exceed public benefits. Meanwhile, advocates continue to press for more openness in such areas as increased disclosure of lobbying activities, of congressional campaign contributions, and of personal finances of federal officials.

David S. Broder, Pulitzer prize-winning national political reporter, adds a word of caution in pointing out that those who want government to operate in the sunshine often really have an agenda to reconstruct the system or alter the direction of government.

History's wastebasket

As for the impact of openness on business, even advocates of openness concede there can be drawbacks.

John W. Gardner, in addressing a national forum on emerging issues, argued that the private sector can end up in history's wastebasket if people become passive and cynical concerning the essential ingredients of democracy. Among these ingredients, he said, is openness. But Mr. Gardner, retired founder of Common Cause, the citizens' lobbying group, acknowledged that there can be excessive openness. He advocated that if business is injured by some unintended consequence of openness, it should take straightforward steps to correct inequities and not worry about appearing to be self-serving.

The extent to which the openness reforms are currently contributing to public trust in government is difficult to measure. Overall, public criticism of government officials appears unabated. Opinion polls indicate considerably less public confidence in Congress than there was ten years ago, and a sizable majority of the public currently rates the performance of Congress as only fair to poor.

The effects of openness depend not simply on how much is visible but on what is seen and how it is interpreted. Openness reforms can help restore public trust only if people see and approve the performance of their political leaders and government officials.

To help NATION'S BUSINESS readers understand the complex issues involved, here is a summary of proposed or enacted reforms whose primary or secondary purpose is to open up governmental processes.

I. Freedom of Information Act

Passed in 1966 and amended in 1976, the Freedom of Information Act was designed primarily to give individuals access to information about themselves contained in government files. The practical result has been to make

vast amounts of information collected by the executive branch available to the general public.

The act specifies nine conditions under which agencies can deny access to materials. If an agency denies a request for information, an appeals procedure is available, including final determination in the federal courts.

In recent years, tens of thousands of requests have resulted in a massive revelation of information in federal files. Media and citizen-interest groups, which were the strongest advocates of the 1976 amendments, have been unexpectedly slow to use the law, whereas business firms are using it much more than was anticipated.

Corporations use the act to get a line on competitors' plans, to find sales leads, to help monitor the actions of regulatory agencies, and to bolster their side in both governmental and private litigation. Some companies have succeeded in learning what prosecutions federal agencies were planning and in obtaining information not obtainable by pretrial discovery procedures.

In some respects, however, the act is proving to be a two-edged sword for business. In certain instances, courts have narrowly defined the protection of trade secrets when corporations have sued to stop an agency from releasing information.

II. Privacy Act

Another provision for opening federal files is mandated in the Privacy Act of 1974. The act requires most federal agencies to identify their record systems on individuals and establishes the following rights for the individual:

1. Notification—to be told about the existence of identifiable personal files and how they are used.

2. Access—to inspect files on oneself, except details of criminal investigations.

3. Correction and amendment—to challenge the accuracy, pertinence, and completeness of such personal files, to request correction or removal of information, and to submit supplemental or rebuttal material.

4. Control—to prevent identifiable information from being improperly disclosed or used for other than authorized purposes without the individual's consent.

This act created the Privacy Protection Study Commission to investigate whether the principles and requirements of the act should be applied to state and local governments and the private sector. Legislation relating to the private sector along lines proposed in the commission's study is being considered on Capitol Hill.

III. Open Meetings

Deliberations of federal advisory committees, Congress, and regulatory agencies have been made subject to openness requirements.

The Federal Advisory Committee Act of 1972 was intended to open to the public the deliberations and materials of hundreds of committees which advise federal departments and agencies. The premise was that requiring public meetings would offset domination of many important federal advisory committees by business, agricultural, professional, and similar interests.

The Senate in 1975 followed the 1973 lead of the House and adopted rules providing that committee meetings, including markup sessions, would be open unless a committee publicly voted to go into executive session.

House-Senate conference committees, long the most secret stage of the congressional decision-making process, now hold open meetings unless either delegation requests executive session.

The 1976 Government in the Sunshine Act requires open meetings of most federal regulatory agencies and their subdivisions. Cabinet departments are excluded, but 46 agencies and commissions are affected—all those which have more than two members appointed by the President and confirmed by the Senate. Meetings must be publicly announced a week in advance, with the date, place, and topic of the session specified.

The sunshine law also says contacts between regulatory commissioners and those they regulate may take place only in official proceedings. The idea is to equalize the input opportunities of all parties.

Some observers state that the sunshine law so far has scarcely made a dent in how the federal bureaucracy operates. They point to the continuation of meetings behind closed doors, the lack of public interest in attending open meetings, and the glut of paperwork which has resulted.

Supporters, however, state that initial problems of interpreting exemptions in the law will be resolved and

that sunlight will make officials more responsive to the public.

Meanwhile, the White House has announced that President Carter will provide for more parties to participate in regulatory rule-making. This may appeal to companies which have become outsiders in trying to get their ideas across to newer federal bodies such as the Environmental Protection Agency and the Occupational Safety and Health Administration, which regulate on an industry-wide basis.

IV. Campaign Financing

Another aspect of the openness issue is the required public disclosure of election campaign contributions and expenditures. The requirements are intended to curb special-interest group giving and to encourage individual political activity.

Post-Watergate revelations that the Committee to Re-elect the President raised millions of dollars, including illegal contributions from some major corporations, led to more stringent regulations. The Federal Election Campaign Act of 1971 was amended in 1974 and again in 1976 to tighten reporting obligations and set dollar limits on political contributions.

Among the requirements: Candidates must funnel all campaign financial transactions through a single committee, must report cash and in-kind contributions in the name of the donors, and treat loans as contributions for reporting purposes.

Sen. Edward M. Kennedy (D.-Mass.) and Rep. Morris K. Udall (D.-Ariz.) want to extend the public subsidy system for presidential candidates to congressional elections. They advocate this as further restricting special-interest giving while enhancing citizen participation in campaigns.

V. Conflict of Interest

The growing body of regulation intended to preclude potential conflict of interest is still another aspect of the openness issue. Beyond the general understanding that public officials should not participate in decisions in which they have a direct, financial involvement, standards for evaluating conflict of interest are neither consistent nor clear.

Because of widespread allegations of conflict of interest in Congress, both the House and Senate tightened their standards of conduct in 1977. Full financial disclosure by members was required. Also, slush funds were prohibited. Congressmen formerly could use private donations to pay some of their office and travel expenses, as long as they paid taxes on any money diverted for personal use. In prohibiting this, each house of Congress increased members' office allowances.

And as of next Jan. 1, the amount that members can earn from outside sources will be limited to 15 percent of their salaries. Remuneration for speaking engagements and published articles is included in the 15 percent limit, and representatives will be allowed to accept no more than $750 per speech or article and senators no more than $1,000.

In the executive branch, a potential for conflict of interest exists as a result of hundreds of people moving between influential positions in the federal government and corporations each year. While such movement is needed to attract qualified people and to prevent stagnation in government agencies, some illegal and unethical activities in regulation and contracting have led to proposals for curtailing the revolving

door between government and private employment.

President Carter has imposed tough conflict-of-interest rules which require nearly 2,000 appointees to make periodic disclosure of income sources and to divest themselves of all holdings that might create conflicts of interest. Also, he has asked Congress to extend financial disclosure requirements to about 13,000 top-ranking federal employees.

Both the House and the Senate have passed legislation which would extend full-disclosure requirements to candidates for Congress, President, and Vice President as well as to judges and thousands of military officers and civil servants.

VI. Lobbying Control

Proposals for regulating lobbyists date back to 1935 when then-Sen. Hugo Black (D-Ala.) called on Congress "to shine the pitiless light of publicity on lobbying efforts." It was not until 1946, however, that Congress enacted legislation requiring the registration of lobbyists.

In 1976, both chambers passed bills by lopsided margins to toughen the 30-year-old lobbying law, but the measures differed, and the differences were not reconciled by a Senate-House committee. Some of the controversial provisions of bills which died with the 95th Congress are requirements for organizations to disclose their lobbying expenditures and legislative or executive action targeted.

A provision which would require the reporting of grass-roots lobbying efforts might be a threat to free speech and the right of citizens to petition government.

Another stumbling block is a proposed requirement that the identity of major contributors to lobbying organizations be disclosed. The American Civil Liberties Union and other groups believe this could have a chilling effect on First Amendment freedoms.

VII. Employee Whistle-Blowing

While there is general agreement that classified government information should not be disclosed by government employees, there is an increasing body of opinion that they should be able to disagree publicly with the policies or actions of their employer.

At present, there is little basis in law for protection of employees who report unlawful acts or refuse assignments which they consider morally repugnant. However, employees, legislators, unions, and judges are questioning the seeming management prerogative to punish employee whistle-blowers.

Recent Civil Service reforms honor President Carter's campaign pledge to establish a procedure for protecting federal employees from retaliation for going public with information that may be legally divulged.

VIII. Subsidies for Citizen Action

Politically weak groups espousing unpopular causes have been given precedence in the subsidization of citizen participation in court proceedings. For example, successful challenges to racial discrimination first occurred in the courts.

Because access to the courts is often contingent on financial resources, many laws now provide for federal reimbursement of litigation expenses to plaintiffs. An additional rationale for such reimbursement is that private attorneys, in enforcing the rights of their clients, sometimes, in effect, take the place of the Justice Department.

The principle of subsidizing access to the courts is being extended to provide access to government agencies. Early in 1976, the Federal Trade Commission began a citizen compensation program with a budget funded by Congress for subsidizing qualified citizen groups to present testimony and cross-examine industry officials and FTC staff members.

Subsequently, other agencies started citizen reimbursement programs, and the General Accounting Office ruled that agencies could pay the expenses of groups or individuals who could contribute substantially to proceedings but lack financial resources.

This caused some advocates of subsidization to conclude that no solvent individual or organization could be funded. In 1977, a New York federal appeals court overruled the GAO policy of allowing reimbursement in the absence of statutory authority for payment of intervenors' expenses. An appeal was denied earlier this year.

To place the subsidy concept on firmer ground, Sen. Kennedy wants to authorize the regulatory agencies to reimburse citizen groups for expenses

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1. Samples, complimentary, and other free copies	23,192	30,613
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in agency proceedings and subsequent judicial reviews.

Proponents say that government has a responsibility to hear from diverse interests, including those who could not participate without compensation. They argue that this would balance the scales of justice, since business spends tax-deductible money trying to influence the regulatory process.

Opponents contend that Congress established regulatory agencies to look out for the public interest and that additional participation would make proceedings more costly without improving the quality of agency decisions. In view of the defeat in the House last February of the administration's proposal for a consumer affairs agency, the Kennedy bill is likely to be given priority attention by some special-interest groups.

IX. Other Issues

Further examples of the current trend toward participatory democracy are: (1) the increasing use by ad hoc citizen groups at state and local levels of the initiative process for submitting legislation for approval and the proposal by Sen. James G. Abourezk (D.-S. Dak.) for a national initiative; (2) demands for public scrutiny of the proceedings of Supreme Court justices; (3) executive branch and Senate action to strengthen oversight of the Central Intelligence Agency and the Federal Bureau of Investigation; (4) proposals for more restrictive use of security classification of documents; (5) pressures for telecasting congressional proceedings; and (6) more presidential appointments of special-interest advocates to government positions.

How much openness do we need?

We need enough to keep democracy alive and flourishing. We need enough to stimulate public interest and participation in government at all levels.

But we do not need so many laws and regulations pertaining to openness that government is bogged down and cannot function properly.

There is good reason to believe that experiments in greater openness will continue. And that public debate concerning them will become more heated before a proper balance between openness and confidentiality is achieved in our democratic tradition. □

DR. BULLOCK *is a professor of political science at the University of Georgia.* MR. STECKMEST *is a public affairs consultant for Shell Oil Co.*

INSURANCE: A Premium Place in America's Economy

Nation's Business
INDUSTRY SPECIAL REPORT

By John Cosgrove

COULD the entire American economy be undermined overnight? Easily, by making it impossible to borrow money for building construction, to obtain any type of credit, to hire employees, or to put salesmen's cars or delivery trucks on the road.

How could such vital activities be made impossible? By crippling the insurance industry, which, to a great extent, made them possible in the first place.

Some idea of the strength which enables insurers to sustain the American economy is apparent from a few statistics. The total combined assets of the insurance industry in 1977—including life, health, property, and casualty—were $477.7 billion or fully 25 percent of the nation's gross national product. The total amount of premiums was $150 billion. And the number of people employed by insurance companies and agencies was 1.69 million.

Insurers also pump vitality into the nation's economy through investments. At the end of 1976, the latest figures available, life companies held $141 billion in corporate and government bonds and more than $34 billion in stocks, of which $25.7 billion represented common shares. The property-casualty firms owned $62.5 billion in bonds of all types and $26.8 billion in common and preferred stocks.

During 1976, the industry as a whole ranked third among all sources of funds in the U. S. money and capital markets. Its $33.6 billion contribution was exceeded only by savings and loan associations and commercial banks.

Major insurance risks, such as this Raymond, Inc. offshore construction rig in the Arabian Gulf, are shared by several insurers. Coinsurance is just one mechanism used to spread the cost of liability.

The industry paid close to $2 billion in premium taxes to the 50 states in 1976; about 46 percent of that came from property-casualty companies.

Such underpinning of the American economy should demonstrate clearly that business people have a big stake in what happens to insurers. And today, what is happening is serious enough to make the front pages of newspapers.

Most often the newspaper stories are blow-by-blow accounts of rate increase fights, with insurance companies in one corner and state regulators in the other.

Tender, loving care is lavished on the consumer-voter by understanding regulators, most of whom are politicians. Many times, critically needed rate increases are stalled or denied. Because auto policies produce by far the largest share of property-casualty premiums, inadequate charges for the coverage sap a company's ability to maintain other markets such as business protection. Thus, troubles in the personal policies are translated into difficulties for commercial operators.

Rates lagged behind

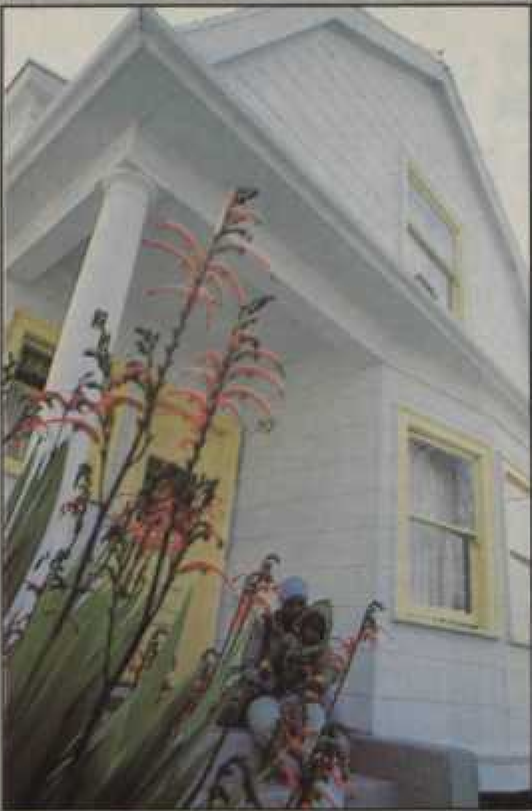
In recent years, the rates for auto and homeowner policies regularly dipped below adequate levels. Swept up in the rising spiral of inflation were the costs of all the materials and services for which insurance pays. Instead of rising at the same pace as inflation, rates have lagged behind.

For example, in 1977 the consumer price index revealed that charges for medical care and physicians' fees went up 13 percent, semi-private hospital room costs rose 16 percent, and auto repairs and maintenance cost 11 percent more. But auto insurance, which covered all of them, rose only 14 percent. Charges for repainting living and dining rooms, for reshingling roofs, and for other house maintenance all jumped 11 percent, while property protection rates rose only ten percent.

The rising prices for everything covered by personal policies are likely to accelerate if the Federal Reserve Board's anticipation of worsening inflation is realized.

But, unlike inflation, rate increases occur only at the pleasure of state regulators. When they restrict income from coverage while outgo in future claims is relentlessly ballooning, trouble is inevitable. And the chief sufferer is the insurance consumer.

John B. Ricker, Jr., chairman and



Insurers contribute vast sums to help revitalize urban areas (above) throughout the United States.

Embarcadero Center, a hotel and office complex in San Francisco, is one of many real estate projects that have been financed by major insurance firms.

The space shuttle (above) will make possible many more space projects, requiring huge amounts of insurance.

Sprawling agricultural projects, like this vineyard in California's San Joaquin Valley (above), are a prime source of investment income for insurers.

Auto policies are the largest source of property-casualty premiums. Inadequate rates can sap the ability of insurers to maintain other markets.

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president of The Continental Corp., says that regulatory lag has a negative impact on profit and on the capital base necessary to accommodate demands for coverage.

"Then combine the lag with inflation, which effectively guarantees that the rate of return on equity theoretically permitted by the regulatory authority is never actually reached because an adequate factor for future inflation is seldom cranked in.

The treadmill effect

"The increase is obsolete and inadequate the moment it is granted. And this is true whether you are dealing with electricity, telephone calls, or insurance. The principle is the same. You might call it the treadmill effect."

Mr. Ricker concludes: "We have what is basically an artificial capital shortage, government-created and maintained."

How imperative it is that regulators allow insurers fair prices is underscored by Thomas A. Harnett, senior vice president and counsel of the Travelers Insurance Co. He says: "Unless a profit is made from underwriting and investment operations, the insurers will be unable to provide for the growing needs of the insuring public.

Regulatory straitjacket

"It is hypocritical of public figures to demand that insurance be made available and, at the same time, to deny the insurer a profit which can provide the capacity—the funds—to assume new risks."

B. P. Russell, chairman of Crum & Forster, contends that the industry is subjected to strangulation, not regulation. "Until it escapes from its regulatory straitjacket, it simply cannot deliver up to expectations—not now, not in 1980, 1990, or in the year 2000.

"The consumer will be better served if insurers can operate under a system that allows them to develop competitive rates and use them without prior approval. Competing in a free market will give companies the incentive and the ability to make a profit," Mr. Russell says.

Hovering over the scene

Even though the regulatory authorities would retain the right to review competitive rates after they were in use and to change them when dissatisfied, the free system has not caught on.

And, hovering over the insurance scene is Washington, ever ready to share the companies' burdens and, if necessary, to take over industry regulation from the states. Somehow, this so-

What Next From Washington?

Federal regulators almost collared the insurance industry in 1945 after it had been declared subject to antitrust laws. But Congress exempted the insurers and left them under state supervision. The reprieve set off a campaign of Washington inquisitions.

Congressional probes have included mail-order coverage, 1953; state regulation, 1958-60; auto insurers' solvency, 1965; credit life, 1967; urban area insurability, 1967-68; auto insurance, 1967 to the present; and life insurance, 1973.

In 1968, Congress approved cooperative programs by the federal government and private insurers for riot coverage and flood protection. But the Department of Housing and Urban Development absorbed the entire flood plan in 1977, dropping commercial underwriters. Federal crime policies appeared in 1970.

National health protection, once an imminent certainty, is now more remote, with the role of private insurers in doubt. Also awaiting congressional action are proposals setting federal standards for no-fault auto coverage and workers' compensation.

Last year, federal regulation was plainly an objective of two coordinated documents, a bill by Sen. Edward W. Brooke (R.-Mass.) and a report by a Justice Department antitrust force. The Brooke legislation offered insurers the choice of a state or federal charter. The latter meant Washington regulation but promised competitive rating, free from the frustrating delays prevalent in many states. The Justice report urged the repeal of the protective 1945 law to erase antitrust immunity and thus transfer industry supervision to Washington. Here, too, the prize was to be rating freedom.

The Brooke bill would establish a federal insurance commission. Its proposed powers seemed elastic enough to stretch over pricing, underwriting, marketing, and other vital functions. An even greater threat was the commission's apparent ability to dictate the industry's investments.

Insurance executives feared that the public's premium payments would be committed to politically motivated projects, depriving worthier enterprises of needed capital, sapping the financial strength of insurers, jeopardizing the savings of life policyholders, and undermining confidence in the very concept of insurance.

The Brooke bill and the Justice Department report are both dormant. But early this year, Rep. John J. LaFalce (D.-N. Y.) drafted a measure that would create his version of a federal insurance commission.

Five separate investigations into how the insurance business is regulated continued during 1978, two under Congress and the others directed by the President's National Commission for the Review of Antitrust Laws and Procedures, the Federal Trade Commission, and the General Accounting Office.

Conflicting attitudes toward the insurance industry are shown by Washington figures: Rep. Ronald A. Sarasin (R.-Conn.) warned an insurance audience that some House members would relish regulating the industry. These representatives see insurance as the last stronghold of big business that they can't meddle with; this is intolerable to those who feel that only government can protect the consumer.

But Gloria Jiminez, head of the Federal Insurance Administration told the same audience that she favors federal activity to supplement rather than supplant state regulation.

Rep. LaFalce differs: "It is incredible that an industry of this magnitude—one which touches each of our lives—is entirely exempt from federal regulation." Future difficulties can be guarded against only by experts at the national level, he insists.

Says Sen. Thomas F. Eagleton (D.-Mo.): "There is no longer a question about a federal role in the insurance field. That already has been established. The only issue remaining is the kind of role Washington will play."

Sen. Eagleton wonders whether Washington's function will continue as supportive or will expand into "much more." That is what concerns insurance leaders. They believe it should concern all business, for whatever hobbles the protector will inevitably hobble the protected.

Managing the Pooling Mechanisms

For centuries, insurers operated by a basic principle: Each applicant had to qualify for coverage and pay a rate pegged on the losses of his class.

This method, admittedly not flawless, still prevails in the normal insurance marketplace. But over the years it became apparent that many people could not meet the ordinary standards. A number of special programs emerged.

One of these provides coverage on properties in hazardous sections, notably the inner cities. Fires are frequent enough in these areas; in addition, the arsonist also thrives there, often bearing the torch on behalf of absentee property owners. The unusual hazards are considered beyond the control of those with properties insured; and they are not charged extra. The inadequacies are made up by other policyholders.

Then there are automobile insurance plans to which drivers are assigned in many states when they cannot obtain ordinary insurance. These pooling mechanisms are all steady losers. Here again, the losses are made up by policyholders.

The average policyholder's pockets are also turned out when any insurance company—not necessarily his own—becomes insolvent. In 47 states and the District of Columbia, all solvent insurers must pay a share of the losses due those with claims against the defunct outfit.

Victor T. Ehre, chairman of Utica Mutual Insurance Group, notes that the cost of carrying these special programs is currently $735 million a year and on the way up.

John Adam, Jr., president of The Hanover Insurance Companies, Worcester, Mass., sees the mandated arrangements as a legalized Robin Hood program—incompatible with a competitive economy.

"Robin Hood may be an attractive character in fiction," he says, "but in real life the Robin Hoods push us steadily toward the doctrine of 'from each according to his ability, to each according to his need.' There is at least one thing wrong with this doctrine. It has never worked anywhere."

licitude is unappealing to insurance executives.

Joseph C. Ladd, president of Fidelity Mutual Life Insurance Co., says: "We create vast pools of money, and we offer services to millions and millions of people. It appears that these characteristics attract the government. It seems interested in testing us by a standard of how well it would run things if it were us. But government efficiency seems to be a contradiction in terms."

Alleged redlining

William C. Simpson, executive vice president of Royal-Globe Insurance Companies, cites actions that suggest what life might be like under the unwieldy Washington bureaucracy:

"The Department of Housing and Urban Development in a recent report was extremely critical of the property-casualty insurance business for alleged redlining practices and its failure to satisfy the insurance needs of inner-city businesses and residents.

"Yet only a week later, the General Accounting Office issued a report that was critical of property-casualty companies for providing insurance in inner-city areas in amounts exceeding property market values, thus providing an incentive for arson for profit."

The problems facing the insurance industry make it difficult to comprehend the fact that 1977 was the most prosperous year ever enjoyed by property-casualty companies.

A brief flashback reveals why.

In seven short years, 1971 through 1978, the industry rose to all-time highs and sank to record lows. All was rosy throughout 1971-72, and results were profitable. Predictably, more than a few companies lost perspective in prosperity. They began to pare their premiums on many of the relatively unregulated commercial coverages to speed the inflow of cash and its outflow into the investment market—mainly equities.

Auto indemnity rates

Meanwhile, inflation was tentatively hopping before leaping over the 12 percent mark by mid-1974. While the prices of everything their policies paid for were soaring, the insurers were driving commercial policy prices into the ground. Soon, every major class of coverage was in the red, joining auto coverage which already had skidded there. The rates for auto indemnity—even then bringing in about 45 percent of insurers' volume—were under the thumbs of political regulators in 42 of the 50 states.

At the end of 1974, the equity investment market fell into the subcellar, and inflation took over the attic. The market debacle alone obliterated one third of the industry's surplus funds just when they were desperately needed to meet huge underwriting losses. Continued acceptance of new business was out of the question, and certain markets had to be restricted or even closed.

During this nightmare, the phenomenon known as social inflation took hold. This meant gouging out of the system whatever a person felt he was entitled to have. Lawsuits were a favorite way of realizing such ambitions. Medical malpractice developed into a crisis, with companies canceling coverage and doctors forming their own insurance companies. Product liability assumed grand proportions, with some huge court awards.

By 1975, the regulators were forced to raise auto and homeowner rates, and commercial rates that had been cut were restored to more sensible levels.

The next year brought a slight turnaround but still managed to go down as the third worst annual period of all time.

To the bewilderment of even the most sophisticated insurance veterans, 1977 brought a gain of $983 million. Immediately, certain state regulators pointed to these windfall profits and proclaimed that companies could resume unlimited marketing without any further rate adjustments.

"Fat-cat" insurers

The consumer was not reminded that the combined industry loss of the three preceding years had been $8.9 billion, that some rates were still not high enough to cope with inflation, and that many insurers' surplus capital had not returned to levels that made expanded risk-taking safe.

Prominent among the critics of "fat-cat" insurers was New Jersey Insurance Commissioner James Sheeran, who adamantly refused rate relief at the end of 1976. The industry has not made a profit on auto insurance in New Jersey for years—not even in 1977.

In 1977, 25 companies waited a year and longer for a decision on their rate increase applications. Some, like the Safeco Insurance Co., never did get a hearing or any action at all.

The "Newark Star Ledger" said that as of July, 1978, nine applications were backed up—one a year old. The newspaper described the application routine: "A company files for a rate increase. The department examines the filing and orders more statistics. The company responds, and the department calls for

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more statistics, and on and on and on."

Such obduracy is not, of course, confined to New Jersey. Contention with other state regulators intensifies Washington's interest in the industry and explains the frequently offered federal carrot of competitive rate-setting that would accompany federal supervision.

William A. Pollard, president of Reliance Insurance Companies, warns against "the federal route to regulatory bliss. The potholes on that enticing route are glaringly obvious."

Mr. Pollard notes that competitive rate-setting can be achieved under current state rules. In more than one third of the states, it is already a fact. "Despite all our disenchantment with certain state regulatory bodies, I am vehemently opposed to federal regulation of rates, reserves, and investments," Mr. Pollard concludes.

Realistic regulator

The proper role for Washington has been prescribed by a realistic state regulator, Kentucky Insurance Commissioner Harold B. McGuffey, who is also president of the National Association of Insurance Commissioners. He told that group's 1978 meeting:

"The major contribution which the federal government, and only the federal government, can make to improve insurance availability and price levels is to resolve the problems of inflation and reduce society's exposure to personal and property harm.

"Such efforts not only would address the fundamental causes of increased insurance rates and availability problems but also would benefit society as a whole regardless of the insurance issues involved."

Do the current operating handicaps and threats of more make insurance leaders downcast about the future of the industry? Quite the reverse.

Maurice R. Greenberg, president of the American International Group, has a reputation as an optimistic realist. How he earned it is evident in his comments on what lies ahead: "More capacity than ever will be needed in the 1980's.

"Heavy capital investment in expanding industries—transportation, energy, and space technology—will offer opportunities to the insurance business. Emerging industries will require new protection products.

"Social inflation may be peaking ... states will be passing legislation to prevent outrageous lawsuits and exaggerated court awards, as has happened in ski area liability and product liability.

"Underwriting cycles will continue, but

Cooler Prospects for Product Liability

A few years ago, lawsuit fever broke out across the country. Those infected regained health in the courts through huge awards drawn from auto liability policies, medical malpractice coverage, and, more recently, product liability insurance.

Certain types of business were targeted as good prospects for lawsuits. They were sued, and some verdicts for monumental sums have gone against them. Steep rises in the cost of product liability protection for these problem industries followed.

Pharmaceutical houses provide a sobering example. Many firms which formerly produced vaccines vital to public health no longer do so. Measles vaccine once had six different brand names but is now made only by Merck & Co. Live virus polio vaccine can be had only from Lederle Laboratories. In the past decade, makers of flu vaccine have dwindled from eight to four. And Merck is the sole remaining source of preventive products for mumps and rubella measles.

Why the decline? The primary reason is that product liability is becoming increasingly troublesome and potentially costly. Vaccines have never brought major income to pharmaceutical firms. So, increasing coverage costs, plus the threat of legal headaches and even financial disaster, have led to withdrawals from production.

Despite the serious problems of strict product liability, insurers do not regard the situation as critical. In 1977, a federal government report also concluded that there was no national emergency. But the Carter administration decided this summer that because coverage was not available and affordable, a remedial federal program was needed.

The action ignored contrary evidence. More than two years ago, insurance companies joined with the National Association of Insurance Commissioners to create voluntary market assistance programs in states where a commissioner felt there was difficulty. Twenty-two states authorized the program, but, surprisingly, the average number of firms per state seeking help has been only 40.

On other fronts, companies have found ways of getting better data on product risks and learned how to use the data more effectively. They have stepped up inspection, safety, and design programs with policyholders and prospects and instituted product monitoring and recall procedures. They have urged major revisions in state laws, and 40 legislatures are now considering proposals to improve performance of insurers in handling product liability, raise the operating standards of manufacturers, and restore balance to the legal system. Vital changes have already been made in 13 jurisdictions.

In the face of this voluntary and unflagging campaign which has already paid off in some ways, the administration unveiled its own program last July. It includes a ten-year tax loss carryback which, if approved by Congress, would give businesses an immediate refund to pay product losses. The administration has directed the Commerce Department to:

- Prepare a model product liability law for enactment by the states;
- Propose as part of any workers' compensation bill a recovery provision to ensure that the manufacturer of a deficient product contributes an appropriate amount to pay the claim of a worker injured by that product;
- Explore liability rating problems;
- Evaluate the proper federal role in product liability;
- Determine if problems would be eased by facilitating formation of self-insurance groups;
- Advise whether premiums can more closely reflect product risk; and
- Measure the effectiveness of initiatives taken by state commissioners and the insurance industry to meet the problems.

The administration's program would duplicate in large part the voluntary campaign already under way.

Separate approaches under different sponsorship will not obscure the plain truth: Product liability problems grew out of abuses of the legal system. The abuses must be removed, and the laws must be restored to an equitable basis for both manufacturer and consumer.

the next downturn will find insurance company management better prepared."

Planners at the Home Insurance Co., Inc., see interesting prospects ahead. For example, a builder will receive an order at his house factory for a residence with a blue front door, yellow siding, and cantilevered terrace. After checking with his modular shipping department, he promises a guaranteed move-in date four days hence.

Or, a farmer and a rancher meet at 20 fathoms. "How's the kelp crop coming?"

"It'll be pretty good unless we have a tidal wave. How's the tuna herd?" "Fine, we must have rounded up 19,000 this week." Such developments as instant housing, harvesting the sea, the practical electric car, computerized retailing, and others will pose new risks that will demand new forms of coverage. Home and other insurers are now thinking of these complex challenges and are preparing to meet them.

Some innovators are studying new ways of accommodating familiar risks by using techniques tested in other lines of insurance. For example, group life and group accident and health plans have flourished for years, often as employee benefits. Currently, commercial enterprises are being studied as candidates for grouping. Selected groups would be covered by a complete protection plan at appealing prices that would be realistic under a loss control program tailored for the group.

Some franchise operations have already been insured in this fashion, and the continuing growth of franchising offers a prospect list without end. Trade and professional associations are other grouping possibilities. The day may come when any assemblage with any kind of valid affinity may be insured.

Trends in the workplace are being studied to measure the effect of possible new accidents and illness on benefit programs. The idea is to ensure that a novel incident will not be encountered at the worker's expense.

Chemically caused diseases—incurred in the workplace or elsewhere—create a need for expanded protection. Crime has broken out of old patterns—to challenge not only the authorities but also underwriters. The computer crook can walk out with a fortune without using a gun or a getaway car. A corporation cannot leave itself exposed to his ingenuity.

Insurers, often thought of as stodgy and unimaginative, are even developing plans to protect against kidnapping and other kinds of terrorism.

Life Insurance Leaders in 1977

1977 Rank	1976 Rank	Premium Volume	
1	1	7,057,102,052	Prudential Insurance
2	2	5,494,224,347	Metropolitan Life
3	3	4,282,755,393	Equitable Life of U. S.
4	5	2,486,123,514	John Hancock
5	4	2,392,699,494	Aetna Life (Conn.)
6	6	2,365,805,944	Travelers (Conn.)
7	7	2,274,059,629	Connecticut General
8	8	2,199,795,585	New York Life
9	9	1,122,423,555	Bankers Life (Iowa)
10	10	1,120,792,733	Massachusetts Mutual

Property-Casualty Leaders in 1977

1977 Rank	1976 Rank		*Premium Volume
1	1	State Farm Group	5,355,568
2	2	Aetna Life & Casualty	4,638,487
3	4	Allstate Group	4,171,813
4	3	Travelers Group	4,143,050
5	5	Prudential Insurance Group	2,738,066
6	6	Hartford Group	2,376,086
7	7	INA Group	2,233,405
8	8	Continental Insurance Companies (N. Y.)	2,176,936
9	11	Liberty Mutual Group	2,159,267
10	10	Fireman's Fund American Companies	2,056,512

*Includes fire, casualty, and health

Blake T. Newton, president of the American Council of Life Insurers, sees a busy two decades ahead. Women's progress in the business world has created another market for life insurance.

Larger opportunities are also appearing among established prospects: A vast new group interested in retirement income plans has developed and will expand. And the growing financial status of more and more women in the work force has generated demand for personal financial counseling and estate planning for many besides the very well-to-do.

Most important of all, Mr. Newton says, those born in the baby boom of 1943-59 have now matured. As they marry and have children of their own, these people will need all kinds of insurance. Some insurers have already introduced novel coverages that seem ideal for this market.

For example, Bernard P. McMackin, Jr., president of The National Underwriter Co., an industry publishing firm, reports that Life Insurance of Cincinnati has introduced term life coverage tied to the homeowner policies of its affiliate, Queen City Indemnity.

The life feature is a monthly reducing term plan, issued in amounts of $50,000 or $25,000, without medical examination, by an agent who has 30-day binding authority. In due course, billing is on the same basis as the homeowner policy. The term life contract is regarded as an integral part of the policy. Identical policy numbers make this possible.

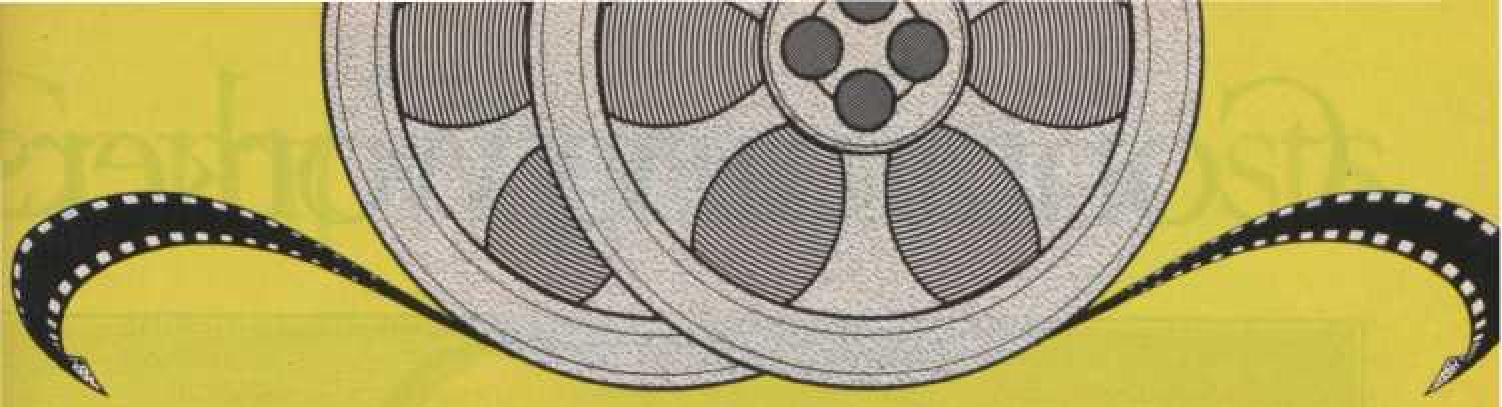
Adjustable life policies

Foreseeing future requirements, Bankers Life of Iowa has aggressively promoted adjustable life policies. These permit the insured to vary the amount of coverage, the term of protection, and the premiums. The switches can be made at any time, and the protection can even be switched back and forth between whole life and term insurance.

Bankers Life is also a pioneer in making direct mortgage loans to individuals. Other life companies operate through mortgage bankers. Bankers Life made $300 million available for residential mortgages during 1978.

Commercial prospects are not being neglected. For example, Prudential is introducing a new one-year term policy designed for business people. Written with a $200,000 minimum, it is ideal for protecting short-term business loans and valuable as interim coverage for buy-and-sell agreements, stock redemption plans, and key employee protection.

This one-year policy can be converted to a life-paid-up-at-85 policy, regardless



Containing Workers

While insurance strategies can provide some relief for rising workers' compensation costs, loss prevention and employee motivation are the most effective remedial measures.

A brief review by INA of an insurance topic of interest to business executives.

Early this year a major corporation closed a 1000-worker plant in California, citing a steep rise in workers' compensation costs as a principal reason.

For the nation as a whole, the cost of compensating workers for job-related injuries, illnesses and deaths has been rising at the rate of about 12% a year, far faster than the rate of inflation. Including insurance premiums and benefit payments, the figure now totals approximately $12 billion a year.

One cause of the upward spiral is that medical costs, too, are going up more rapidly than prices generally. But another major factor is that almost every state has liberalized benefits in the past three years. Some 13 states, for example, now have cost-of-living escalators. In addition, state compensation boards and the courts are accepting more and more disabilities as job-related.

And Congress may still mandate national standards. Under one bill that is pending, payments to disabled workers could eventually be as much as 200% of a state's average wage.

Improving cash flow

Companies trying to minimize the cost of workers' compensation are utilizing a number of insurance strategies. So-called "retrospective rating plans" with commercial insurance carriers, for example, adjust the premium during the policy period to reflect ongoing loss experience, which can help a corporation's cash flow. Other large companies retain the use of loss reserve capital through offshore captive insurance companies.

The major trend is certainly toward self-insurance, with excess coverage written by outside carriers for protection against large, unpredictable claims. In several states a third or more of employees covered by workers' compensation now work for com-

Compensation Costs

panies with self-insurance programs.

To qualify as a self-insurer, however, many states require large reserves or surety bonds, a course many smaller companies can't afford. And for those that must turn to outside carriers, premiums have increased as much as 80% over the past two years.

Prevention as the cure

The best defense for all employers against rising premium and benefit payouts is to reduce the number and size of compensable claims. For self-insurers the advantage is obvious, and while it takes several years to demonstrate an improved loss history, the resulting premium savings can be substantial.

The first step is to tighten reporting procedures. Thorough study of accurate, timely statistical reports can reveal developing trouble spots and problem employees.

When accidents do occur, on-site nursing stations and rapid access to doctors can keep many small accidents from turning into long-term disabilities. Rehabilitation programs that return workers to their jobs faster also cut the size of disability payments.

Even when a company has complied with the Occupational Safety and Health Act (OSHA) standards, plant surveys by insurance companies and other consultants can usually suggest further improvements. But more accidents are caused by human error than by inadequate safety devices. Carelessness, fatigue, boredom and anger all take their toll.

The attitude of employees is therefore a key factor in achieving a better safety record. Good morale results in fewer accidents and illnesses and a willingness to return to work sooner. And perhaps the major element in motivating workers to care and be careful is to make them sense the commitment of management itself.

Educational programs and widely displayed posters and progress charts are only a first step. All accidents should be investigated promptly and thoroughly. Foremen and department heads should be trained to watch for hazardous situations. Safety committees, composed of workers and supervisory personnel from all concerned departments and invested with meaningful responsibilities and authority, have proved effective in rallying worker involvement and support.

INA has formed a separate unit to handle the complex risk management needs of companies in areas like workers' compensation. This Special Risk Facility can provide primary and excess insurance as well as a wide variety of self-insurance, safety and rehabilitation services.

* * *

The Insurance Company of North America was founded in 1792 in Independence Hall, Philadelphia. Today it is the largest component of INA Corporation's international network of insurance and financial services companies. In property and casualty insurance and risk management services, life and group insurance, investment banking, and health care management, INA and its affiliated companies offer a unique combination of products and services to business and industry around the world.

INA insurance products and services are available through selected independent agents and brokers. For an informative booklet on current trends in workers' compensation, write INA Corporation, 1600 Arch Street, Philadelphia, Pa. 19101.

"Cumulative trauma"—is the condition spreading?

Is a respiratory ailment the result of the work environment or years of heavy smoking? To what extent did job stress contribute to heart trouble or a nervous breakdown? There are many such questions that physicians themselves often can't answer. But state boards and the courts—in response to so-called "cumulative trauma" claims—are increasingly awarding claimants full compensation benefits. Some critics argue that we are drifting away from the intent of the law—compensation only for work-caused accidents and illnesses.

INA

The Professionals

Thousands of agents who make up the insurance industry, like Dean Gleeson of Middletown, N. Y., generate $25 billion in premiums a year.

Rating Reform

The insurance industry has some reforming of its own to do in rating auto casualty policyholders, says William O. Bailey, president of Aetna Life & Casualty.

In a study made by an independent firm for Aetna, some of the factors used in rating were endorsed by respondents. But age was favored by only half of those replying, and the use of gender, occupation, and marital status in classifying risks was opposed by huge majorities, Mr. Bailey says.

"We need to revise our rating system to satisfy today's standards of fairness. We also need to do a better job of explaining why those rating elements that are to be retained are fair and equitable."

of health or occupation, at any time up to the fifth policy anniversary. It can also be renewed seven times in successive one-year periods.

While some life insurers are diversifying into property-casualty, mutual funds, and other products and are reaching for mass markets, Massachusetts Mutual is going against that trend. The company intends to keep concentrating on the "upscale" market. Its success in specializing in that field in the past is established: Massachusetts Mutual sells more million-dollar policies than any other company.

Personal observations

Sizing up the future, R. Morton Darrow, Prudential's vice president of planning and analysis, makes these personal, not corporate, observations:

- Decreased consumer interest in individual life insurance for death protection. Individual life coverage will mainly complement group and social insurance.
- Increased interest in savings-investment mechanisms. This market will attract all types of financial institutions looking to broaden product lines and services in order to maximize use of their distribution systems. An example of this trend will be life insurer entry into executor and estate settlement fields.
- Most agencies will market a wide range of personal financial security products. Exclusive life distribution systems will be the exception, not the rule.
- Consumerism and regulatory pressure will force companies to take a more positive, active role in eliminating marketing practices that contribute to negative public reaction. A more positive public attitude toward the insurance agent will be one result.

Some insurance forecasters have been examining the risk potential in space travel—not for astronauts but for individuals who someday may want to take a vacation that is different.

Gerald E. Frick, vice president of Marsh & McLennan, Inc., considers the use of space limitless. The space shuttle, he says, is a vehicle with unimagined capabilities. Mr. Frick thinks that by 2000, business conducted in space may generate $30 billion in revenues, and all of it will require coverage.

The shuttle will make it possible to construct huge solar power stations to help solve energy problems. Staggering amounts of insurance will be involved. Insurers will also be called upon to provide builders risk protection for projects assembled in outer space.

Those inclined to dismiss such projections as fantastic should know that the thinking of some practical organizations seems to track with Mr. Frick's. For example, the National Aeronautics and Space Administration has forecast that by 2000 we will need 50 more satellites just to handle the predicted load of long-distance phone calls.

More down-to-earth, some insurers are acting on the belief that if they are to continue as the primary protectors of the economy's developing future they must do more about protecting their future.

Early this year, Bradford W. Mitchell, president, and Otto C. Lee, chairman of Harleysville Mutual Insurance Companies, set out on a ten-state, 23-city tour to discuss these topics: What bugs people about insurance; why it costs so much; why it's sometimes hard to get; and how its cost can be reduced.

This trek resulted in 16 television appearances, 13 radio features, and 14 interviews with business and consumer editors of daily papers. Backup news and features from the company's communications unit produced about 50 articles in other papers and magazines.

Sweeping reforms

On their home grounds of Pennsylvania and New Jersey, Mr. Mitchell and Mr. Lee urged sweeping reforms to prevent auto coverage from being priced out of the reach of most motorists.

In Virginia, they praised the competitive rating system, calling it "a model of soundness and fairness that should be adopted elsewhere." The Harleysville trail is worth following because it leads to public understanding and gains badly needed allies.

Another type of alliance is needed to repel Washington's ongoing invasion of the industry. Insurers and their regulators should join in convincing legislatures that control of insurance must remain with the states—close to the consumers and commercial enterprises it serves.

Certain improvements will bolster state regulation: Better pricing for all

coverages by sounder and more up-to-date data, an overhaul of the auto classifications used in rating, and a shake-up of the entrenched practices of underwriters. In this way, insurers can come closer to giving every insured person the most and the fairest coverage possible for his premium dollar.

When the American businessman thinks about taxes, he must wonder at times whether he is getting all that he is paying for. Any businessman might ask himself this question: Would it be desirable if my premium dollars for private insurance were increasingly converted into taxes so that more and more of my coverage was backed by Washington and my business depended on the bureaucracy?

Anyone whose answer is no should let his state legislators know that he wants federal infiltration brought to a dead stop. It has already gone far enough—and then some. □

MR. COSGROVE *is a consultant to the Insurance Information Institute, New York.*

To order reprints of this article, see page 58.

Cultivating the Health Care Field

Health Insurance Leaders in 1977

1977 Rank	1976 Rank		Premiums Earned Less Dividends
1	1	Prudential Insurance Co.	$1,961,111,650
2	2	Aetna Life Insurance Co.	1,550,300,830
3	3	Travelers Insurance Co.	1,529,437,021
4	5	Connecticut General Life	1,142,987,118
5	6	Equitable Life Assurance Society	1,040,299,352
6	4	Metropolitan Life Insurance Co.	944,433,740
7	7	Mutual of Omaha Insurance Co.	912,742,124
8	9	John Hancock Mutual Life Insurance	587,001,472
9	10	Continental Assurance Co.	532,303,789
10	8	Provident Life & Accident Co.	479,736,556

Fear of a federal takeover of the private health insurance industry has haunted insurers for years. This development would deprive them of $25.7 billion in premiums—measured by the estimated 1977 volume written by life and health and property-casualty companies. Blue Cross and Blue Shield accounted for an additional estimated $26.7 billion.

Sen. Edward M. Kennedy (D.-Mass.) is pushing a national health insurance plan that would involve the federal government in a cradle-to-grave program which would substantially increase regulation of the insurance industry.

George Martin, head of a Chicago brokerage firm specializing in group coverages, says an inflexible federal program would be an exercise in folly.

"Supporters of national health insurance would destroy the entire lawn of health insurance rather than eradicate . . . the few weeds and bare spots which exist," he says.

"To illustrate: 183 million Americans are now protected by some form of private health insurance—approximately 80 percent of the population. Yet, supporters of national health insurance would scrap this system instead of simply extending proper protection to those in need."

The insurance companies were relieved and cheered last summer when the administration's principles for national health insurance were revealed. Robert F. Froehlke, president of the Health Insurance Association of America, characterized the Carter program as a good start.

"The President says his plan should include a significant role for private health insurers. We would hope this means he has decided to work through the existing private system in the development of his proposal."

Mr. Froehlke adds: "While there are some areas of health care that government should finance, we hope the major responsibility will be where it belongs—on employer and employee contributions and on individuals who can afford it."

Robert A. Beck, chairman of Prudential Insurance Co. of America and a former chairman of the health insurance association, pinpoints the primary issue in the health field:

"The opinion surveys, observations made by the media, the regulator, the legislator, all tell us that the most pressing concern today is the containment of health costs."

Accordingly, the health insurance association is conducting an advertising and public relations campaign targeted at these cost-containment areas:

- Hospital budgets—states are encouraged to establish commissions for advance review. Connecticut has saved more than $203 million in four years through its commission, and Massachusetts has bettered that record with savings of $532 million in three years.
- Certificate of need—every hospital should have written evidence that a proposed facility is needed or that an existing one is necessary.
- Health planning—citizen participation in health systems agencies will strengthen their effectiveness.
- Ambulatory care—cost reductions can be made through minor surgery on an ambulatory basis and by the encouragement of second opinions.
- Preventive care and health education.

Besides running ads on health care cost control and reduction, the association has involved companies and agents in an all-out public information effort. Chief executives of insurance firms have named program coordinators who are implementing internal and external public relations activities.

State health care committees, made up of company and agency representatives—have been the primary contact with the news media and professional, business, and community groups.

In all aspects of this campaign, the stance of the companies and the tone of their messages reflect concern with the consumer's plight and are directed to the victim's relief.

But also reflected is the industry's determination to continue to play a major role in the delivery of health care to the public.

"I cannot tell a lie..."

Rick Bennett, Founder and President of Hagoth Corporation, holds the HAGOTH voice stress analyzer—a remarkable new high-technology device that identifies truthfulness as soon as it is spoken.

"I cannot tell a lie. I did it."

For years these forthright words have been taught to generations of school children as the response of a young George Washington who has just incurred his father's displeasure for cutting down the cherry tree in the back yard.

This story—and others—have given countless first-graders a lesson in the moral virtues of truth. Fortunately, that lesson sticks with most people throughout their lives.

But, it is an all too familiar story about what happens to some of these young idealists when they enter the world of politics or business. They get lied to, cheated, and stolen from until they, themselves, come to the conclusion that the key to their own success and survival is to learn to lie, cheat, and steal better than the next person. Survival of the fittest, fastest, or glibbest. Or so they rationalize. But, deep in their hearts they have never truly forgotten the lesson of George Washington.

It is because of these kinds of people and the millions, if not billions, of dollars worth of grief that they cost the honest businessman each year that the Hagoth Corp. was formed. The Hagoth Corp. was founded just two years ago for the sole purpose of developing the Hagoth voice stress analyzer. Since then hundreds of businessmen have come to view the HAGOTH as their last line of defense against the unprincipled actions of the conscious deceivers.

That is quite a testimony in such a short period of time. But, it is true. The value of the HAGOTH is that it can detect deception. Unerringly. Simply.

Moreover, its operation is based upon simple principles—principles with which you are already familiar. First of all, we have talked about the lessons of George Washington. The importance of that story is to show that we have all been taught that truth is a virtue. And in one way or another, we all believe that that is still true. None of us are really good liars. Even the most practiced deceivers will experience a change in respiration rate. Or he may skip a heartbeat. And his mouth will get dry. And his galvanic skin response will change. There are all physiological changes that take place when a person tells a lie.

And it is because of these changes that the polygraph works. But the problem with the polygraph is that, first of all, the subject has to consent to being strapped down and wired up to the machine. Secondly, the intimidating experience of being connected to a polygraph can induce the kinds of stress that the machine is designed to measure in the first place. Therefore, the polygraph must be operated by people who have extensive training in order that they can distinguish between the stress caused by deception and the stress caused by the machine itself.

But despite the fact that the polygraph measures so many different physiological changes, it, nonetheless, ignores what scientists have discovered is one of the most reliable changes of all. That change is within the voice itself.

When a person experiences the pangs of conscience or the fear of being caught there is an 8-14 cycle micro-tremor modulation in the voice that changes. That change is the result of physiological changes that occur in the vocal cords and larynx.

And that is what the HAGOTH measures. The absence or presence of the micro-tremor—and its strength. No straps. No wires. No insults or intimidations. The subject need not even be aware that he is being tested. In fact, one of the best uses of the HAGOTH is over the telephone. Or it can sit innocently on a businessman's desk—its indicator lights visible only to the owner of the HAGOTH. (The front panel of the HAGOTH has eight green lights and eight red lights. The green lights indicate that a person has strong positive feelings about what he is saying—that he is telling the truth. The red lights indicate stress. The more red lights that are lit, the greater the stress—and the greater the probability of deception.)

But the real beauty of the HAGOTH is that it is easy to use. The average businessman or attorney may spend less than two hours time familiarizing himself with the HAGOTH before he uses it for negotiations of price, delivery, or settlement. And literally millions of television viewers have drawn their own conclusions as they watched demonstrations of the HAGOTH on The Today Show, the Mike Douglas Show, and on the special, The Space Age (hosted by William Shatner of Star Trek fame).

And millons more people remember the front page coverage that was given to the HAGOTH analysis of the debates between Ford and Carter, Rick Bennett, President and founder of Hagoth Corporation says of that analysis. "Had the story of those debates broken a week before the election instead of a week after, we might well have a different President today.

In this short space, we can't begin to tell you all there is to know about voice stress analysis. But we can tell you that HAGOTH works. We can tell you that your $1500 investment in a HAGOTH is the cheapest—and perhaps only—insurance against deception that you can buy.

Or if you are just interested in more information on voice stress analysis, we can help you there too. We're the ones who wrote the book. For $3.00 (Washington residents add 5.4% sales tax) you can get the book HAGOTH and learn all about the fundamentals of voice stress analysis—plus some entertaining reading about past uses of the HAGOTH.

But however we can help, just give us a call at (206) 235-1020. Or drop us a line at 85 N.W. Alder Place, Dept. 20, Issaquah, Washington 98027.

HAGOTH
CORPORATION

And if you are really curious about whether or not everything that I am telling you is true, then let me suggest an experiment. First, you purchase a HAGOTH. Next you connect it to your telephone and give me, Rick Bennett, a call. Then you can ask me questions to your hearts content. And you will find that, like George Washington. "I cannot tell a lie."

Why Union Leaders Are Frustrated and Angry

LAST JULY, when United Auto Workers President Douglas Fraser abruptly pulled out of the Labor-Management Group, a high-level business-union committee that advises the administration, he accused business leaders of waging "one-sided warfare against working people."

More recently, AFL-CIO President George Meany and other union officials have echoed this charge.

The union leaders are trying to sell their rank-and-file members and the general public on the ridiculous idea that business is out to foment class warfare and wreck the unions.

The union leaders are running scared and seemingly are willing to try almost anything for the simple reason that they have been meeting defeat in Congress.

Over the past year, organized labor has tried doggedly to win the passage of four major bills that, if enacted, would have increased union power considerably. That effort failed.

The bills were: common-site picketing, cargo preference, repeal of the Hatch Act, and massive changes in the National Labor Relations Act, the so-called labor law reform bill.

Business opposed each of these bills on the ground that it was not in the public interest; and unions were not able to prove otherwise to Congress. Labor's inability to push through changes in the National Labor Relations Act, even with the strong support of the President, seems to be the principal reason the union leaders are so frustrated and angry—and looking for someone to blame.

But the fact is that the unions did not really lose anything that they already had. Union leaders were merely demanding more and more power. And the representatives of the people wisely turned down their request.

This is hardly cause for union leaders to charge business with fomenting class warfare, especially at a time when the entire nation must join together to fight the debilitating disease of inflation. □

Nation's Business is the business advocate magazine leading the effort to strengthen the private enterprise system to advance human progress.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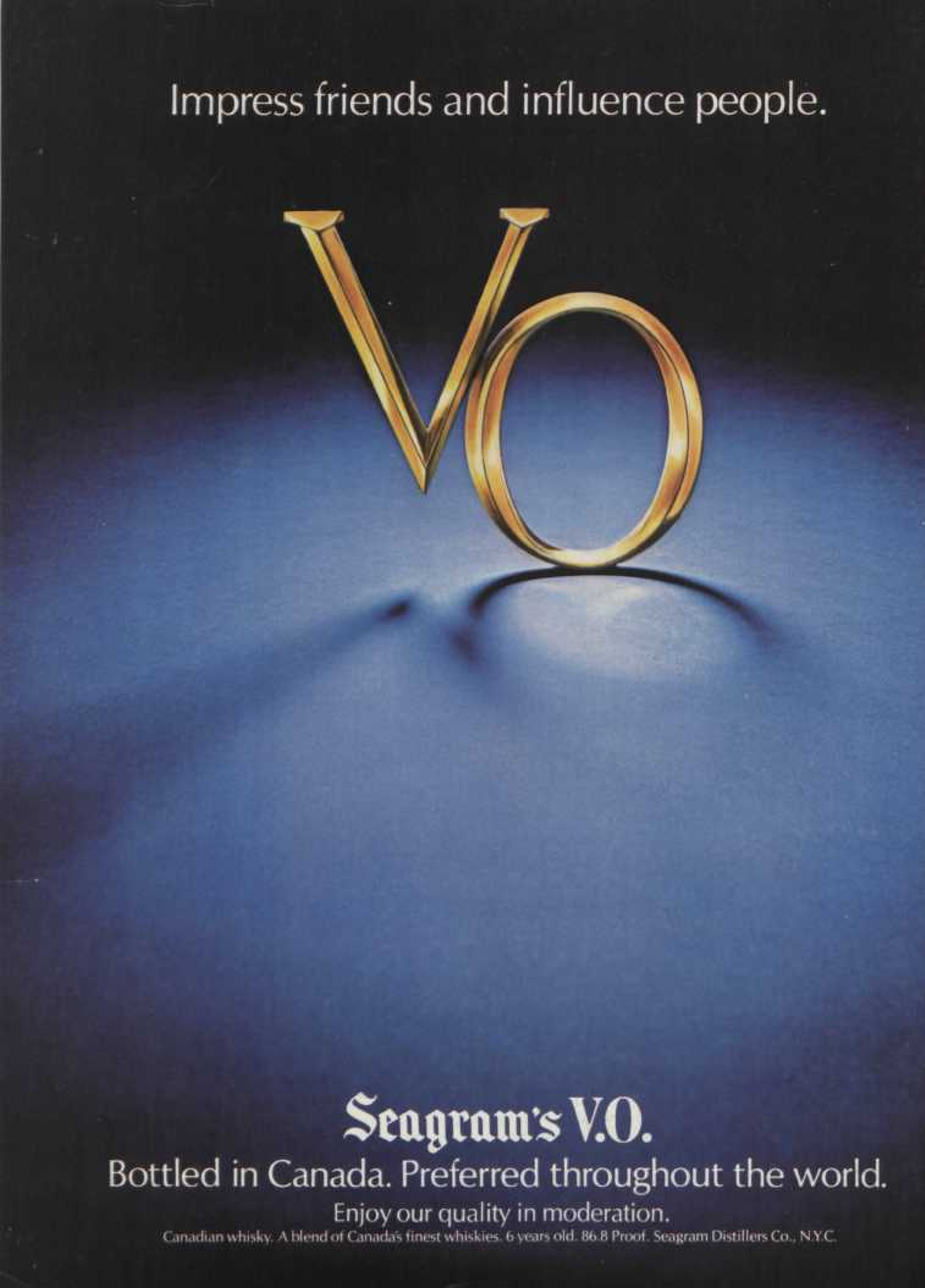
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